

Asia	Sch 20	Indonesia	Rp 2500	Portugal	Esc 200
Bahamas	Da 1.000	Italy	L 1000	S. Africa	Rand 100
Belgium	Bf 100	Japan	¥ 1000	Spain	Ptas 100
Canada	C\$ 100	Jordan	Jds 1000	Switzerland	Sfr 100
Denmark	Dkr 100	Korea	₩ 1000	Taiwan	Nt\$ 100
France	Ffr 100	Malaysia	Mal 1000	Thailand	Bt 100
Germany	DM 100	Mexico	Ps 1000	USA	\$ 100
Greece	Dr 100	Norway	Nkr 1000		
Hong Kong	Hk\$ 100	Philippines	Php 1000		
India	Rs 100	Singapore	S\$ 1000		
Italy	L 1000	South Africa	Rand 100		
Japan	¥ 1000	Spain	Ptas 100		
Korea	₩ 1000	Switzerland	Sfr 100		
Malaysia	Mal 1000	Taiwan	Nt\$ 100		
Mexico	Ps 1000	Thailand	Bt 100		
Norway	Nkr 1000	USA	\$ 100		
Philippines	Php 1000				
Singapore	S\$ 1000				
South Africa	Rand 100				
Spain	Ptas 100				
Switzerland	Sfr 100				
Taiwan	Nt\$ 100				
Thailand	Bt 100				
USA	\$ 100				

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Friday June 27 1986

D 8523 B

Opposition MPs pierce South African silence, Page 3

World news Business summary

TV report divides British Cabinet

The recommendation of a committee into the financing of British broadcasting that all 15 regional commercial television franchises should be put up for auction in 1988 has led to serious disagreements between senior Cabinet ministers. Home Secretary Douglas Hurd, the minister responsible for television, wants to reject the underlying free-market philosophy of the Peacock Committee report and several of its specific recommendations. Mrs Margaret Thatcher, the Prime Minister, is understood to be more in favour of taking broadcasting completely into the free market by the end of the century. Page 16

Divorce vote

Ireland's 24m electorate voted in a referendum to decide whether to introduce divorce. The result is expected today. Page 2

Emergency stays

South Africa's Law and Order Minister Louis Le Grange said that the national state of emergency would not be lifted soon, as a parliamentary recess promised even tighter control of news of unrest. Page 3

Confidence vote

Portugal's minority Social Democrat Government last night faced a confidence vote. Prime Minister Anibal Cavaco Silva has challenged opposition parties either to let him govern unhindered or face an early election. Page 2

Bonn rejects calls

West German Economics Minister Martin Bangemann rejected US calls for it to boost its economy and said it was making better progress towards cutting its huge trade surplus than Japan. Page 2

Turks condemned

Turkey's military court of appeal has ratified nine death sentences and overturned four passed on members of an extreme left wing group convicted of guerrilla attacks before the 1980 military coup. Page 2

Belgian air crash

The pilot and two passengers in a light aircraft were killed when it collided with a Belgian Air Force jet, whose pilot ejected safely. Page 2

Top Chinese to stay

Premier Zhao Ziyang of China said there was no plan for President Li Xian'an or Communist Party chief Hu Yaobang to retire at his next congress set for late next year. Page 2

Britons released

Two British engineers held in Nigeria for over two years won their appeal against 14 years jail terms for conspiracy and theft of an executive jet. Page 2

Magazine editor

New Statesman, British left-wing weekly magazine, named John Lloyd, Financial Times industrial editor, as its next editor. Page 2

Banca del Lavoro to sell 49% of equity

BANCA Nazionale del Lavoro, Italy's largest bank, plans to take 49 per cent of its equity out of state hands and sell it to Italian and foreign investors. Page 18

WALL STREET: The Dow Jones industrial average closed 4.85 down at 1,880.23. Page 38

TOKYO: New peaks were reached as investors sought medium-priced incentive-backed stocks. The Nikkei average advanced 84.32 to a record 17,600.95. Page 38

LONDON: Institutional and US support pushed leading equities higher again. The FT Ordinary share index added 1.3 to 1,351.1, while the FTSE 100 closed 8.1 better at 1,637.5. Page 38

DOLLAR: fell in London to DM 2.2215 (DM 2.1480). It rose to FF 7.0825 (FF 7.0650); SF 1.8195 (SF 1.8175) and was unchanged at Y186.0. On Bank of England figures, the dollar's index rose to 115.5 from 115.0. Page 31

STERLING: rose in London to \$1.5195 (\$1.5170). It also rose to DM 3.3750 (DM 3.3625); SF 2.765 (SF 2.7575); FF 10.7625 (FF 10.7175) and Y252.25 (Y251.75). The pound's exchange rate index fell 0.1 to 76.0. Page 31

GOLD: rose \$0.75 to \$345 on the London bullion market. It rose in Zurich to \$345.20 from \$344.25. Page 30

HOESCH: West German steel group which last year paid its first dividend in a decade, expects a significant increase in earnings for 1986 on the basis of its performance so far. Page 4

BASF: the West German chemicals concern, has found sales picking up in the second quarter after a restrained start and is "highly optimistic" about prospects for the rest of the year. Page 4

LIFFE: the London International Financial Futures Exchange, is to spend £1.2m (\$1.8m) on a big increase in trading capacity. Page 6

JAPANESE: semiconductor manufacturers fear that long-running talks with the US over alleged dumping of Japanese micro chips in the US may end without agreement. Page 4

VOEST-ALPINE: troubled Austrian state-owned steel and industrial group, is holding talks with unions aimed at cutting administrative and service staff by 2,400. Page 4

THAMES: Television, London commercial TV station, said the offer for sale of 25 per cent of its equity was almost 20 times oversubscribed. Page 17

COMPANIA: Telefonica, Spain's 47 per cent state owned telecommunications group, increased net profits last year 20 per cent to Ptas 30,150m (\$275m). Page 17

AMERICAN: Medical International, US hospital group, admitted a 50 per cent fall in third quarter earnings to \$21.5m was incurred because it was not managing its costs effectively. Page 17

Thatcher and Kohl hold out against Pretoria sanctions

BY QUENTIN PEEL IN THE HAGUE

AN IMPORT ban on South African coal, iron, steel, fruit and vegetables, proposed by the Dutch presidency of the European Community, last night threatened to divide EEC leaders at their summit meeting in The Hague.

Both Mrs Margaret Thatcher, the British Prime Minister, and Chancellor Helmut Kohl of West Germany maintained firm opposition to any imposition of sweeping economic sanctions, as part of a package of measures to persuade the South African Government to open a dialogue with genuine black political leaders.

The heads of state and government of the 12 member states were struggling last night to find common ground on a "balanced package", which most believed should include some restrictive economic measures, as well as "positive" action to support anti-apartheid groups.



Mrs Margaret Thatcher

Mr Ruud Lubbers, the Dutch Prime Minister and chairman of the summit, appealed to his colleague to find a balanced response which would promote dialogue in South Africa.

British and German officials made clear that their Governments remained very sceptical about the value of hostile economic moves in promoting a dialogue.

"We want negotiation and we want dialogue," a British official said. "Measures we would be happy to see adopted should be targeted to that end."

"The objective is to achieve something, rather than to make people feel good."

French officials confirmed that a trade embargo on South African coal, iron and steel, wine, fruit and vegetables, had been proposed to the EEC leaders, along with a package of positive measures to support black groups in South Africa.

The measures, including legal aid for victims of the latest state of emergency and consolidation of current EEC programmes to the black community, are virtually agreed.

Those member states seeking stronger economic measures are Denmark, Greece, Ireland, Spain and the Netherlands. Belgium

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France and Italy are prepared to go along with limited action, provided all the member states join in.

Portugal shares the same basic opposition as Britain and Germany, influenced in part by the 600,000 Portuguese living in South Africa. France, represented at the summit by both President Francois Mitterrand and Mr Jacques Chirac, the Prime Minister, seems ready to go along with most of the trade measures, which would make a big dent in South Africa's exports to the Community but not damage EEC economies seriously.

The wine, fruit and vegetable embargo plan, in particular, would benefit both French and Italian farmers by removing a source of competition for products in surplus. Keeping out South African steel and iron would also be positively welcomed throughout the Community.

The issues were discussed by the EEC foreign ministers yesterday morning without any clear solution emerging, although general agreement was reached on the measures to support black groups. The heads of government only reached the subject just before dinner, when they were due to continue the debate.

The issue of South Africa could cloud an otherwise relatively conflict-free meeting - the regular six-

Continued on Page 16

Some trade unions freed, Page 3

US may reduce growth forecast from 4%

By Stewart Fleming in Washington

THE REAGAN Administration is expecting to have to lower its real economic growth projections for 1986 from the current level of 4 per cent and to raise its estimates of the fiscal year 1986 budget deficit when it releases its mid-year review of the budget outlook next month.

With first-quarter real growth of only 2.9 per cent, and the second quarter widely expected to be lower, officials concede that it is increasingly unlikely that the current 4 per cent growth target can be met. After the first quarter it was estimated that the economy would have to grow at about 4.9 per cent through the rest of the year to reach the 4 per cent level for the 12 months.

Growing pessimism about the economic outlook is already translating into mounting political pressure on the Federal Reserve Board to cut its discount rate again and ease monetary policy.

The White House dropped a heavy hint earlier this month that, while not wanting to interfere with the Fed's independence, it would like to see interest rates decline. Yesterday, Mr Robert Dole, the powerful Senate Majority leader, reinforced the message he has been sending recently to the central bank, calling on the Fed to lower interest rates, saying "now is the time to lower interest rates... this would help to stabilise, not disrupt, the current economic situation."

The increasing political pressure on the Fed as the economy stagnates and the mid-term elections approach, comes ahead of a key meeting of the central bank's monetary policymaking Open Market Committee (OMC) on July 8-9. Shortly after this meeting, Mr Paul Volcker, the Fed Chairman, will be testifying on the Fed's monetary policy in Congress.

On Wall Street, economists who watch the Fed are increasingly predicting that the central bank will lower its discount rate and - particularly after the gloomy first-quarter gross national product report from Japan - that this could come in the context of another intentionally co-ordinated discount rate reduction.

Meanwhile, on Capitol Hill yesterday a conference committee of the House and the Senate which has been working to try to patch together a fiscal 1987 congressional budget resolution, appeared to be nearing agreement.

The main stumbling block has been defence spending, with neither

Continued on Page 16

US sees fresh hopes in Soviet arms proposals

BY WILLIAM DULLFORCE IN GENEVA

FRESH opportunities for serious constructive discussion of nuclear disarmament may have been opened up by the latest Soviet proposals put forward at the nuclear arms control talks in Geneva, the US acknowledged yesterday.

In the most optimistic statement he has yet made, Mr Max Kampelman, the head of the US delegation to the talks, said at the end of the fifth round that his team was returning to Washington to "participate in the preparation of a constructive response" to the Soviet proposals.

Moscow had introduced a new option in the negotiations on reductions in strategic nuclear weapons, Mr Kampelman said. Modified Soviet proposals in the talks on space

weapons had been "responsive" to some US concerns.

The Soviet Union has offered as an intermediate step to negotiate a reduction of strategic nuclear forces to 6,000 "nuclear charges" on each side. It has kept on the table the fuller 50 per cent reduction first mentioned at the summit meeting between President Ronald Reagan and Mr Mikhail Gorbachev in November.

More significantly, perhaps, the Soviet agreed not to count intermediate nuclear forces (INF) weapons stationed in Europe - such as US Pershing and cruise missiles - among the strategic weapons.

In the talks on space weapons, Moscow softened its previous demand for a complete halt to President Reagan's Star Wars programme. It accepted that basic research should continue and that laboratory research would be held at the present "threshold".

In return, the Soviets wanted the US to agree to extend the existing anti-ballistic missile treaty for at least 15 years. They also offered to negotiate agreements banning space weapons aimed at satellite and targets on Earth.

The cautious hopes expressed by Mr Kampelman received rough treatment from Mr Viktor Karpov, Mr Kampelman's assessment presented the actual state of negotiations in a distorted light, a press statement from the Soviet delegation said. The US had continued to block progress in the talks and had evaded a businesslike consideration of the Soviet proposals.

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Ferruzzi seeks UK clearance before any British Sugar deal

BY LIONEL BARBER IN LONDON

FERRUZZI, the giant Italian food and agricultural business, yesterday took the unusual step of asking the UK Government to order a Monopolies and Mergers Commission inquiry into its shareholding in S&W Berisford, the commodity trading group.

Mr Bauli Gardini, the Ferruzzi chairman, made the request during a press conference in London which he outlined his interest in buying the whole of, or a controlling stake in British Sugar, the UK best monopoly which is a wholly-owned Berisford subsidiary.

The Office of Fair Trading (OFT) said yesterday that it was examining Ferruzzi's proposals and would make a recommendation to the Secretary of State for Trade and Industry, Mr Paul Channon, shortly. Under the Fair Trading Act 1973, the declaration if intent to make a bid is enough to warrant a Monopolies Commission reference.

Mr Gardini, flanked by his merchant bank advisers, Barclays De Zoete Wedd, said that Ferruzzi wanted to be treated on an equal footing with Tate & Lyle, the UK sugar refiner, whose conditional bid for Berisford has been referred to the Monopolies Commission. Tate has made clear that it is only interested in acquiring British Sugar, a move which would give it more than 80 per cent of the UK sugar market.

Ferruzzi stopped short of unveiling a formal offer for Berisford, but it signalled that it was serious in its intentions by announcing the appointment of Sir Richard Butler, a former president of Britain's National Farmers' Union, as chairman of Agricola UK, a newly created vehicle for Ferruzzi's interests in Britain.

The failure to announce a formal bid drew criticism from Charterhouse Japhet, merchant bank advisers to Berisford. Mr Sandy Muirhead, of Charterhouse, said that Ferruzzi should clarify its position in the interests of Berisford shareholders.

The National Farmers' Union also attacked Ferruzzi's proposals. Mr David Nash said in a statement that the NFU had "said consistently that we would prefer British Sugar to remain in British ownership."

Mr Nash said the NFU had asked the OFT to examine whether it was advisable to allow Ferruzzi to control such a large portion of the European sugar industry. Ferruzzi currently has 18 per cent of the European market; if it were to control British Sugar, its share would rise to 22 per cent.

Mr Gardini said Ferruzzi would only increase its stake in Berisford if there were no objections from the OFT.

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Lex, Page 16; News analysis, Page 22



In tomorrow's special issue we look at different styles of travel; we discover the best delis and department stores; and we check out the New York fashion buys. We look into skyscraper gardening... and skyscraper housing to make it possible. Even our chess and bridge columns and crossword have a US flavour. All in the weekend FT tomorrow.

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A Cross-Country Estate Project by Wheat-Sheaf Investments

Mayfair W1

27 Grosvenor Street

Restored office building

3,130 sq ft

To Let

Hillier Parker

01-629 7666

77 Grosvenor Street London W1A 2BT

EUROPEAN NEWS

Air traffic in Europe 'to increase by 5.4%

The Association of European Airlines is predicting a 5.4 per cent annual growth of air traffic in Europe for the next five years, AP reports from Brussels.

Passenger traffic is expected to rise from 43.5m to 53.8m in 1990, the association said yesterday.

The forecast is based on a 2.5 per cent annual growth of the European gross national product and steadily decreasing inflation.

The association said total international air traffic dropped by 3.1 per cent in April, reflecting the public response to recent political events coinciding with an already-weakened demand from the US. Traffic dropped by 10.4 per cent on the North Atlantic, but increased 17.5 per cent on the South Atlantic.

Soviet N-plant plan

Soviet authorities are going ahead with plans for the country's biggest graphite-moderated nuclear power station despite the Chernobyl accident, according to officials in the republic of Lithuania. *Reuter reports from Vilnius.*

The four-reactor plant at Ignalina, Lithuania, will have a capacity of 6,000 Mw, making it 50 per cent larger than Chernobyl and one of the most powerful plants in Europe.

Le Pen gun alert

National Assembly deputy Mr Jean-Marie Le Pen, leader of France's extreme right wing National Front, said yesterday he was involved in a dispute with customs officials at New York's Kennedy airport who found a gun in his luggage. The dispute arose over the validity in the US of a permit justifying his carrying of a gun. *AP reports from Paris.*

Fermenta accused

The Swedish Bank Inspection Board accused Mr Refaat el-Sayed, main owner and group chief executive of biotechnology company Fermenta AB, of violating laws barring insider trading. *Reuter reports from Stockholm.*

France 'assures Arabs'

France has told Arab powers that it will not supply Iran with arms and is interested in helping end the Gulf war, the newspaper *Al-Qabas* said yesterday. *AP reports from Kuwait.*

FitzGerald appeals for support on divorce

BY HUGH CARNERY IN DUBLIN

THE Irish Government today anxiously awaits the result from yesterday's referendum on a proposal to introduce divorce for the first time.

An opinion poll on Wednesday showing the proposed constitutional amendment would be defeated prompted a wave of last minute appeals from Dr Garret Fitzgerald, the Prime Minister, and other government ministers, for voters not to reject the move.

For the first time in the campaign, they stressed the implications a defeat could have for the hopes of reconciling the Republic and Northern Ireland, where Unionists would regard it as proof of the dominant position

of the Roman Catholic Church in the south. A statement by four Fine Gael parliamentary deputies said defeat would make the border like the Berlin Wall.

In a similar vein, Mr Barry Desmond, Health Minister, a member of Fine Gael's coalition partner Labour, attacked the attitude of the Catholic hierarchy which strongly opposes divorce under any circumstances.

"One would expect a body of men so intimately connected with the tragic history of this divided country to place greater emphasis on the need to reconcile both traditions. No-one will die as a result of the introduction of divorce,"

he said. "Many may die if we do not take the necessary steps to heal the divisions on this island."

Dr Fitzgerald has pinned much of his political career on trying to make the Republic a more liberal society and his authority, and that of his coalition, would be seriously undermined.

Voting continued until 10 pm last night and counting does not start until this morning. Early indications were that turnout would be around 55 per cent, which compares with 58 per cent in a referendum three years ago which coshined a ban on abortion in the constitution.



FitzGerald... warning

Opec hopes for majority accord on output

BY RICHARD JOHNS IN BRNO, YUGOSLAVIA

DETAILED discussions on the level of collective output best geared to raise oil prices to the \$17-\$19 per barrel range by the end of the year are expected to start today at the meeting of the Organisation of Petroleum Exporting Countries in its third day.

"I think we will come up with an agreement," Spelkin Yamani, the Saudi Arabian Minister of Oil, said yesterday. However, it is generally accepted that at best this can only be a majority accord, with Iran, Algeria and Libya once again dissociating themselves.

Moreover, any new and higher ceiling clearly could not apply before the 1st quarter of 1986.

Talk is likely to centre on a figure of \$17.5m b/d. Iraq is understood to have given some

ground for hope that its demand for a much higher quota might be accommodated within such a limit.

Opec experts acknowledge that the surge in the group's output to 19m b/d in June means that demands for members' crude and stocks will be less than the 17.2m b/d forecast in the report of the Economic Commission Board, drawn up late in May.

For the October-December period the requirement from these sources was projected at 18.4m b/d.

Some members among the majority giving priority to regaining market share are insistent that more attention should be given to "managed price competition," or limiting the damage to per barrel revenues.

They are alarmed at the increase in the volume of Opec oil flooding the market in the second quarter, averaging about 18m b/d compared with the estimate of 16.5m b/d demand made at the last conference.

Doubts still persist, meanwhile, as to whether Saudi Arabia, Kuwait and the United Arab Emirates sincerely want an end to the price war in the near future. There is speculation that they want to continue a squeeze on non-Opec production to bring about some kind of global agreement, recognising a much bigger share of the market for Opec.

Among the minority, Iran has initially given the impression of being more conciliatory. It has proposed a cut of 10 per cent in Opec output from the level

of demand agreed upon by the Opec. In practice, though, they are unlikely to reach any consensus.

Algeria and Libya have shown signs of softening from their insistence of a reduction of 14-14.5m b/d.

The group of five ministers charged with maintaining contacts with other producers were said by delegates to have clarified the kind of contribution in the form of output restraint that might be forthcoming from those willing in principle to assist Opec in devising a plausible output-sharing system.

They believe that Mexico, Egypt, Oman, Guyana, Malaysia and Brunei would be prepared to collaborate if Opec observed from October a ceiling in the region of 17.5m b/d.

Anti-nuclear wave hits Yugoslav party congress

BY ALEKSANDR LEBL IN BELGRADE

THE post-Chernobyl wave of anti-nuclear sentiment hit the Yugoslav Communist Party congress yesterday with some delegates urging an end of the country's nuclear power programme and a ban on US and Soviet navy ships carrying nuclear weapons entering Yugoslav ports and waters.

The calls were more a reflection of the diversity of opinion expressed at the congress that takes place every four years than a serious threat to the policy of the Mikulic government, which despite recent postponement of the one new nuclear reactor scheduled to be built in the next five years wants to retain the nuclear

energy option. The congress started on Wednesday with a tongue-lashing speech from Mr Vidoje Zarkovic, the retiring party president, who criticised the party for failing to help push through economic reforms.

Most of the hundreds of delegates who have spoken so far have favoured market-oriented economic reform, less state interference in business life and less restriction of private enterprise.

In voting changes which may help both democratise and strengthen the party at the federal level, delegates will today elect, by secret ballot, the 165-member party central committee.

Zurich conference to discuss exchange rates

BY JOHN WICKS IN ZURICH

THE international parliamentary working round on exchange rates and co-ordination, to be held in Zurich this weekend, is described by its organisers as the "working bedside" of May's Tokyo summit.

The informal conference, called by the Washington consultants Smick-Medley and Associates, is intended to focus on "defining the political and intellectual boundaries of the proposed new co-ordination agenda."

Mr David Smick said in Zurich yesterday that this would mean discussing whether a consensus existed on international co-ordination. A report on the proceedings was to be forwarded to finance ministers,

central banks and parliaments before the September meeting of the International Monetary Fund.

The Zurich event, which follows the US congressional summit on exchange rates and the dollar, organised by Smick-Medley in Washington last November, will feature short speeches by over 20 leading political, government and business representatives.

These include Dr Karl Otto Poehl, President of the Bundesbank, Mr Michael Candesius, governor of the Banque de France, US Senator Bill Bradley and Mr. Oona Ruding, Dutch Finance Minister, and chairman of the Group of Ten and the IMF interim committee.

EEC reform of trade barriers 'behind schedule'

BY QUENTIN PEEL IN THE HAGUE

THE European Commission yesterday warned member states of the EEC that plans to remove all barriers to trade within the Community were falling well behind schedule.

In strongly worded criticism of the Council of Ministers — the decision-making body of the 12 member states — the Commission said it had "not shown the sense of urgency or determination to see the programme through to time."

The Commission singled out finance ministers and agriculture ministers for failing to make progress with important proposals for scrapping trade barriers.

Its progress report on the work to achieve a genuine common market in the Community by 1992, as agreed by EEC leaders a year ago in Milan — was presented to yesterday's summit meeting in the Hague.

Referring to plans to reform the Treaty of Rome in order to speed decision-making in the Council of Ministers, agreed in Luxembourg last December, the Commission said: "The Spirit of Luxembourg does not appear to have infused the attitudes of member states in the Council."

The Dutch Government, which holds the chair of the EEC Council of Ministers, still claimed good progress in

removing specific barriers to trade, but admitted it was not enough to meet the timetable.

"It has become clear to the Presidency that the internal market can only be achieved if the institutions and the member states make even greater efforts," it said.

The Dutch singled out three areas for particular emphasis:

- The need to agree on tax harmonisation, described as "an essential prerequisite for completion of the internal market."
- The need for greater competition for government spending contracts across EEC frontiers.
- The liberalisation of transport, the lack of which resulted in "very high unnecessary costs."

All are controversial for many member states and the Commission paper noted the failure of finance ministers to make progress with several proposals on harmonisation of value added tax and excise duty.

It also claimed that agriculture ministers had "devoted little time to (internal market) proposals" in their area of responsibility.

The Commission also claims some share of responsibility for slippage, for not producing all its proposals on time.

EEC asked to back food export co-operation

BY QUENTIN PEEL IN THE HAGUE

EEC leaders were yesterday asked to endorse a plea for more co-operation between the world's leading food exporters to stabilise world markets.

The European Commission and the Dutch presidency of the Community called for a stress on greater co-operation to underpin the efforts of the EEC and other producers to reform their farm sectors and curb overproduction.

Without such co-operation, the Commission warned, "the exporting countries risk adopting support measures which lead to increased financial costs for corresponding benefits for the agricultural community."

The Dutch proposal says that the problem of overproduction of major foodstuffs—cereals, dairy products and meat—is worldwide and requires a co-operative solution on a similar scale. The stress on the need for co-operation is an old theme

which has not hitherto produced any successful co-operation, even between exporters such as the EEC, the US, Australia, Canada, New Zealand and Argentina.

The position put to the heads of government at their summit in the Hague suggests a new stress on a co-ordinated market approach, both in international trade negotiations like the new round of the General Agreement on Tariffs and Trade (GATT) and in bilateral talks such as those under way between the US and EEC.

"In this situation the need for concerted action in the world context is evident," the European Commission concludes. "Such action must concern not only the adjustment of domestic support policies in a mutually coherent... but also co-operation for the stabilisation of world markets and the development of world agricultural trade."

Vote of confidence for Lisbon government

By Peter Wise in Lisbon

PARLIAMENT was to decide the fate of Portugal's minority Social Democrat Government last night in a vote of confidence. Mr Anibal Cavaco Silva, the Prime Minister, has challenged opposition parties either to let him govern unhindered or to face an early election.

The opposition was expected to refrain from toppling the centre-right administration and provoking a crisis.

Defeat of the motion would force the Government to resign. A victory would give the Prime Minister greater moral authority in a repeated confrontation with parliament but would not necessarily ease the practical problems of getting legislation through with a minority of less than a third of the parliamentary seats.

The declared opposition of the Socialists and Communists and the expected abstention of the centrist Democratic Renewal Party (PRD) undermined the votes of the 22 Christian Democrat deputies crucial to the Government's survival.

Although natural government supporters, the Christian Democrats allowed speculation to mount over their voting intentions in an apparent bid to win counter benefits for backing the Social Democrats.

Mr Cavaco Silva tabled the confidence motion on the programme approved by the opposition when he came to office last October was being subverted by persistent allegations of blocs and blocs of government legislation in parliament.

His action was provoked by opposition changes to the budget, restrictions on plans to reprivatise state media and moves to delay the revision of rigid labour laws that make it almost impossible to dismiss workers.

Opposition parties accuse Mr Cavaco Silva of failing to accept a minority government's obligation to seek compromise and consensus on policy and of creating an artificial conflict to deflect attention away from the Government's alleged inability to revive business confidence, despite favourable economic conditions.

But the Prime Minister appears to have calculated his risks carefully. If he must face an election, he would clearly rather do so before economic growth falters.

Gatt committee gears up for Uruguay talks

By William Dullforce in Geneva

THE PUBLICATION of two rival draft declarations for trade ministers has this week injected a sense of urgency into the committee preparing for new multilateral trade negotiations.

The pace and atmosphere of the committee's work in both informal and formal sessions this week had changed markedly, a spokesman for the General Agreement on Tariffs and Trade (GATT) said. Mr Arthur Dunkel, the GATT secretary-general, announced yesterday that the preparatory committee would go into permanent session from July 8 in an effort to resolve serious differences remaining between the big trading nations and the hard core of developing countries.

The committee has a mid-July deadline for preparing the declaration with which it is hoped trade ministers meeting at Punta del Este, Uruguay, in September can launch the new round of negotiations.

The two draft declarations — one from nine industrialised countries, the other from 10 developing countries — draw the lines.

The three major trading blocs, the US, the European Community and Japan, have this week rallied round the draft declaration produced by nine industrial countries.

The US and the EEC have both emphasised this week that they will not accept any declaration which, like that proposed by the 10 developing countries, omits all references to trade in services, intellectual property rights, direct investment and other "new" GATT issues as subjects for negotiation.

French papers make a splash in the regions

By David Housego in Paris

TWO OF FRANCE'S national papers are bringing out regional editions in Lyons in what marks a small upheaval in the press of the country's second-largest city.

Le Monde began its Rhone-Alpes edition in January and now daily publishes two pages of regional news and analysis by dropping the Paris entertainment guide that appears in the national edition.

The move by the former Government to maintain the loyalty of its existing readership and to achieve a 10 per cent increase in sales.

Liberation has a far more ambitious project: to develop a genuinely local paper into which the national edition will be slipped. It has recruited 50 staff locally, including 30 journalists and is spending more than FFy 12m (\$1.7m) in launch costs with a start-up planned for September.

Both moves have been accelerated by the recent takeover by Mr Robert Hersant, the right-wing press proprietor and owner of Le Figaro, of the Progrès de Lyon and its sister papers. The takeover gives the Hersant press a virtual monopoly of newspapers in the region.

Attempts by the former Government to block further expansion by the Hersant group came to nothing, and the Government of Mr Jacques Chirac has been putting a new press Bill through the National Assembly which effectively removes some of the obstacles to the continuing growth of the Hersant empire.

Both measures of decentralisation by the national press also come at a time when there has been a sharp drop in Lyons in newspaper readership. Mr René-Pierre Eoullat, the new local editor of Liberation, says the situation for the press in the area is "catastrophic" with 150,000 families abandoning readership of newspaper over the past 10 years.

Among the most popular papers in Lyons are the freely distributed advertising journals which are thin on news and heavy in classified advertising.

Liberation will be providing 16 pages of news on Lyons a day, aimed at its young readers who are mainly in the 25-30 age bracket. Much of its coverage will be based on providing a personal focus on the problems and enjoyments of living in the city.

If the Lyons edition proves successful, Liberation plans to launch similar ventures in other cities such as Toulouse.

Balmy weather makes for EEC summit's festive air

BY LAURA RAUN IN THE HAGUE

BALMY WEATHER and a relatively relaxed agenda for the European Community summit in the Hague created a rather festive air that even the super-organisation of the Dutch 2,400 police and security preparations surpassing those for last year's papal visit.

Cordially greeted during a traffic jam as Mr François Mitterrand, the French president, and Chancellor Helmut Kohl of West Germany leaped over their cars to stroll together.

The only real threat to the comparative calm is the issue of South Africa, which could leave 12 summit members in disarray if no agreement is reached.

Motorcades ferried the government leaders to a lunch with Queen Beatrix and later to the without concert resort. The clampdown on news left the 750 accredited journalists loitering about the courtyard of the Agriculture Ministry while summit talks went on next door.

The Netherlands, as current EEC chairman, has spared no effort in staging the semi-annual summit designed to give prime ministers and heads

of state a chance to ponder broad issues in studied casualness.

Security measures alone have cost the Dutch government F1.3m (£880,000) and involved 2,400 police and security preparations surpassing those for last year's papal visit.

A Dutch frigate is moored off the 19th-century Kurhaus while helicopters buzz overhead and sandalled skips surround the press centre.

Kurhaus staff have been vetted for a year and a security check began weeks ago for bombs.

Much attention has been focused on the pas de deux between President Mitterrand and his Prime Minister, Mr Jacques Chirac. This cohabitation between a Socialist president and conservative prime minister has led to a series of carefully choreographed appearances.

Both were invited to the Queen's lunch at Noordeinde Palace, where they were said to have sat beside each other and spoken only between themselves.

West Berlin debates SPD split over defence

BY LESLIE COLTIT IN BERLIN

AN OPEN rift within the once dominant West Berlin Social Democrat Party (SPD) has unleashed a fierce debate over the party's ties to the Western alliance.

The opposition SPD, which governed the city until 1981, was split last weekend when a minority of 65 SPD right-wingers stormed out of a party congress.

The walkout was in protest over a resolution by left-wing SPD delegates to approve a "security partnership" with the Warsaw Pact instead of Western military deterrence. Washington was sharply criticised for its "policy of force and superiority."

The US, along with Britain and France, has maintained troops in West Berlin since 1948 to prevent it from falling under Soviet rule. The parliaments of West Berlin and West Germany yesterday debated the split.

Chancellor Helmut Kohl's Christian Democrats accused the opposition of abandoning its previous common ground with the other parties and of moving "closer to Moscow than to Washington" on key political issues.

Mr Eberhard Diepgen, mayor of West Berlin, has called on Mr Johannes Rau, the SPD's candidate for next year's West German election, to bring the West Berlin SPD "to its senses."

The issue is embarrassing to Mr Rau, who is attempting to dispel the widespread impression in West Germany that the SPD is sliding to the left.

At its peak under former mayor Mr Willy Brandt, the SPD in 1983 polled 62 per cent of the votes in the West Berlin elections. In last year's ballot, however, it plummeted to an all-time low of 32.4 per cent.



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Pressure mounts for Shin Bet inquiry

By Andrew Whitby in Tel Aviv

THE EMBATTLED Israeli Government of Mr Shimon Peres yesterday faced mounting pressure for a full inquiry into the "Shin Bet affair" a day after the enforced resignation—and pardon—of Mr Avraham Shalom the internal security chief.

Mr Yitzhak Shamir, the former Likud Prime Minister, currently serving as Foreign Minister, said he had "nothing to fear" from the public investigation of the scandal being demanded by an increasing number of politicians, particularly in the Labour Party.

Australian pay rise awarded

By Emilia Tagaza in Manila

ONLY A fortnight after Mr Bob Hawke, the Australian Prime Minister, announced austerity measures, Australian workers were yesterday awarded a 2.3 per cent wage increase from next month.

South Africa frees some trade union leaders

BY OUR JOHANNESBURG CORRESPONDENT

SEVERAL black trade union leaders, including the general secretary of the Council of South African Trade Unions (Cusa), Mr Fineshew Camay, were released from detention under emergency laws yesterday while Mr Louis le Grange, the Minister of Law and Order warned that the state of emergency would not be lifted in the near future despite the passage into law of tough new security law amendments.

He told a National Party rally in Nelspruit in the Eastern Transvaal that the Government would not make the mistake again of lifting the emergency too soon and added: "We are determined to apply all aspects of the regulations and are not prepared to negotiate with any hostile forces."

Meanwhile, the Bureau of Information reported yesterday that another landmine exploded under a truck on a gravel road close to the township of Soshanguve, north of Pretoria yesterday morning while another five blacks were killed in separate violent incidents. This brings the official total of "unrest" deaths since the emergency was declared to 67. The black driver of the truck was not hurt.

The police have offered a reward of up to 1,000 Rand (£283) for information leading to the arrest of people allegedly involved in "necklacing" or any form of incitement to violence in the townships. They supplied telephone numbers where calls can be made in confidence.

The bureau, meanwhile, has responded to media requests for more details on unrest incidents and the fuller picture which emerged from yesterday's daily "unrest situation" is of continuing violence, sometimes involving sizeable crowds.

Thus one of the five blacks whose death was recorded in the latest official report was shot during an alleged attack by about 200 blacks on a railway police vehicle in Daveyton, east of Johannesburg.

Mr Denis Healey, the British Labour Party's shadow Foreign Secretary, yesterday toured townships around Durban and after studying photographs and affidavits and talking to township residents, accused members of the Zulu Inkatha movement headed by chief Mangosuthu Buthelezi of what he called "vigilante violence."

Michael Holman adds from London: A group of leading British companies have endorsed a statement calling for "fundamental political change" in South Africa but express opposition to any measure aimed at damaging or undermining the South African economy.

"Such measures would be counter-productive," says the statement, "and likely to lead to increased polarisation of attitude and the removal of all possibility of peaceful change."

The statement has been circulated by the British Industry Committee on South Africa (BICSA), formed earlier this year, whose chairman is Sir Leslie Smith, a director and former chairman of the BOC Group.

Over 30 companies have backed the statement, including BP, Consolidated Goldfields, Hill Samuel, Mitchell Cotts, Rowntree Macintosh, Rio Tinto, Shell, Unilever and Reckitt and Colman.

She sought in vain this week to force Mr Louis Le Grange, the Minister of Law and Order, to reveal the numbers, names and ages of those detained. But by reading out several names of suspected detainees in parliament, she nevertheless was able to use the protection of parliamentary privilege to help reveal the wholesale nature of the detentions of community leaders, from churchmen to trade unionists.

In her condemnation of the Government's refusal to answer questions even in parliament, Mrs Suzman complained that "South Africa had become like El Salvador and Argentina, where people went missing and their governments refused to say whether those concerned were dead or not."

It is this kind of comparison which can still be made in parliament—but no longer outside its walls where such a statement would almost certainly come under the blanket denunciation of "subversion."

The Government has refused to accept the PFP's demand that parliament should not go into recess while the state of emergency continues, just as it refused last July to reconvene parliament when it announced the first state of emergency.

After the latest warning to the domestic and foreign media to toe the line on the emergency regulations or else, the silence hanging over South Africa will become more stifling than ever.

which for most of its 38 years in power has been dedicated to enforcing apartheid. Its most important act has been scrapping 34 laws and amendments which formed the basis of influx control and the pass laws. Parliament is to be reconvened for an additional session on August 18 to approve the other reforms proposed by the Government.

On the other hand, parliament's most reformist session has also been characterised by several profound shocks to the whole system of parliamentary government. In the first week of the new session a stunned House of Assembly heard Dr Frederick Van Zyl Slabbert announce his decision to give up the leadership of the PFP and his seat. Parliament, he said, had become "a ritual of irrelevance" engaging itself in "ridiculous political debate while our country is bleeding."

Since then Dr Slabbert has appeared on a platform of one of the main extra-parliamentary opponents of apartheid, the United Democratic Front, aimed at seeking white support for a broad non-racial alliance against apartheid.

His attack deeply offended many of his erstwhile supporters, including Mrs Helen Suzman, who for years battled on as the lone opposition voice in parliament. Her unremitting criticism of Government actions and formal questions in parliament have not only kept the Government on its toes but also provided an invaluable source of information.

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Aquino names team to negotiate with rebels

By Chris Sherwell in Manila

PRESIDENT Corason Aquino of the Philippines yesterday named a two-man government team to seek a ceasefire in the country's communist-led insurgency.

The emissaries—Mr Ramon Mitra, the Agriculture Minister and Mr Jose Diokno, head of the Presidential Commission on Human Rights—will hold negotiations with Mr Satur Ocampo, the man already nominated to represent the Communist Party and its military wing—the New People's Army.

Mr Diokno, a former senator, is known for his strong nationalist sentiments and left-leaning opinions. Mr Mitra, seen by some as a rightist star in the Aquino administration, is more conservative.

Mrs Aquino's announcement came at a press conference at which she also revealed she had received \$15m in immediate economic assistance from the European Economic Community.

Two Britons held for jet theft freed in Nigeria

Nigeria has freed two British engineers jailed since 1984 after they won appeals against conviction for the theft of an aircraft. Michael H'zman reports. Britain yesterday welcomed the release of Mr Kenneth Clark and Mr Angus Patterson, who were facing a 14-year jail term for allegedly assisting in the illegal departure of a jet from Lagos in May 1984, about two months before an abortive kidnapping in London of a former Nigerian minister sought by Lagos on corruption charges. The court decision ends an affair which added severe strains to Anglo-Nigerian relations.

Malaysia's Penang State Legal Department has said it would withhold a draft death warrant for Australian drugs trafficker Mr Brian Chambers until a plea for a stay of execution was heard next month. Renter reports from Penang. After a hearing yesterday, the state's legal adviser, Mr Sitaru Yusoff, said he would also withhold a warrant for Mr Kevin Barlow until appeals are heard. Both men have been condemned to hang for trafficking heroin.

Hostage release hint. The Tehran Times yesterday quoted a senior Iranian official as saying Iran could help free British hostages in Lebanon in the same way Tehran's "ideological links" helped free two Frenchmen in Beirut. Renter writes from Tehran. Meanwhile, Iran released Mr Jean-Yves Albertini, an Air France station manager in Iran, after a one year sentence for giving parties considered corrupt in the Islamic Republic, diplomatic officials said.

Sudan debt at \$20bn. Sudan's total foreign debt stands at more than \$20bn, rather than the \$9bn the Government previously announced. Dr Mohammed Abu Fureta, Commerce Minister, revealed yesterday. Kazi Khouri reports from Amman. The Minister told a news conference that Sudan's exports could only cover about 30 per cent of its total financial needs and that expatriate remittances had dropped recently to half their former level.

Anthony Robinson reports from Johannesburg on limits to parliament's power

Opposition MPs pierce the stifling silence



Mrs Helen Suzman (left) was offended by the attack on the role of parliament by Dr Frederick Van Zyl Slabbert

ONE OF the first acts of the Bureau for Information, the sole source of official news and comment on "unrest" since the declaration of South Africa's state of emergency two weeks ago, was to warn the media not to use the term "white minority regime" to describe the country's government.

Formally, the Bureau had a point. Since the introduction of the new constitution in September, 1984, South African laws have had to be approved through a complicated legislative process involving not only the House of Assembly with its white parliamentarians but also the coloured House of Representatives and the Indian House of Delegates.

The tri-cameral constitution, which totally excludes blacks who have no parliamentary representation at all also ensures that in the last resort the ruling white Afrikaner National Party has the last word. The vehicle for preserving the essence of Afrikaner parliamentary power is the President's Council, the top level policy advisory body which has a built-in National Party majority.

In case of a deadlock in the standing committees where legislation is thrashed out between members of all three houses, legislation passes to the President's Council for a decision, which is then passed to the State President for his signature.

first time when President P. W. Botha signed amendments to the Internal Security Act and the Public Safety Act. These empower the Minister of Law and Order to declare any part of the country an unrest area and detain people without trial for 180 days, virtually incommunicado. They also grant the security forces legal indemnity for their actions, provided they are taken "in good faith."

The amendments, which give the Government permanent powers similar to those of a State of Emergency without formally having to declare one, were opposed not only by the coloured and Indian Houses but also by the main white Opposition Party in the House of

Assembly, the Progressive Federal Party (PFP). The amendments have thus become law even though a majority of MPs in all Houses voted against them by 159 votes to 146. The Government was condemned by leaders of the coloured and Indian Houses as well as the PFP for overruling the expressed will of Parliament.

This latest example of the limitations of parliamentary democracy in South Africa comes at the end of a session where the role of parliament has come under scrutiny and criticism as never before.

On the one hand it has seen the passage of some of the most "reformist Bills" ever to be proposed by a Government

which for most of its 38 years in power has been dedicated to enforcing apartheid. Its most important act has been scrapping 34 laws and amendments which formed the basis of influx control and the pass laws. Parliament is to be reconvened for an additional session on August 18 to approve the other reforms proposed by the Government.

On the other hand, parliament's most reformist session has also been characterised by several profound shocks to the whole system of parliamentary government. In the first week of the new session a stunned House of Assembly heard Dr Frederick Van Zyl Slabbert announce his decision to give up the leadership of the PFP and his seat. Parliament, he said, had become "a ritual of irrelevance" engaging itself in "ridiculous political debate while our country is bleeding."

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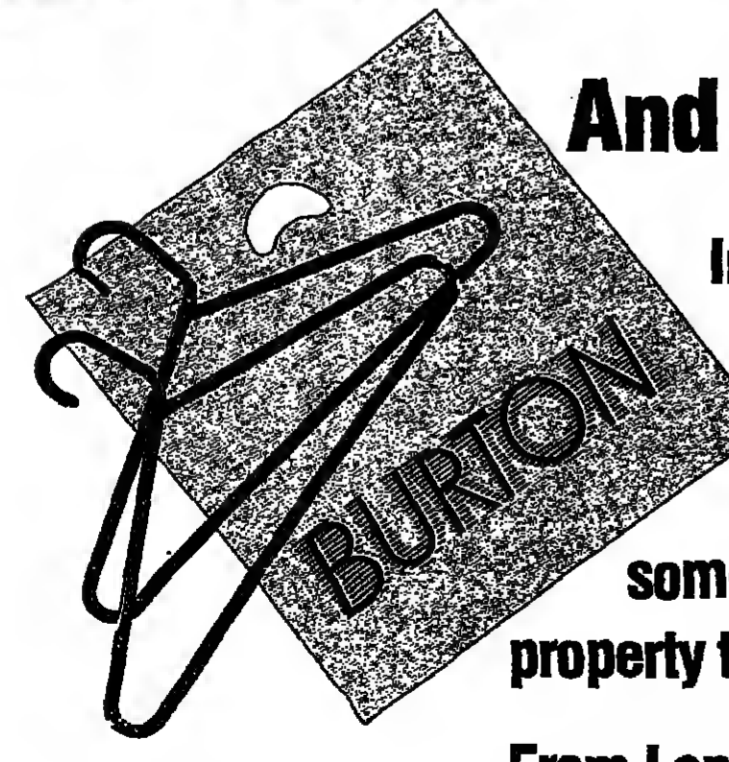
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AMERICAN NEWS

House approves Reagan aid plan for Contras

BY REGINALD DALE, US EDITOR, IN WASHINGTON

President Ronald Reagan yesterday was basking in one of his highest congressional foreign policy victories after the Democrat-controlled House of Representatives finally approved his \$100m aid plan, including military assistance, for Nicaragua's Contra rebels. The President, relaxing at his California ranch after a strenuous lobbying campaign, said that the vote "represents a step forward in bipartisan consensus in American foreign policy."

Ortega warns of invasion

BY PETER FORD IN MANAGUA

MR DANIEL ORTEGA, Nicaragua's President, warned on Wednesday that the new military aid for the Contra rebels marks another step towards a US invasion and told his countrymen to "improve their battle readiness."

Reginald Dale visits northern Arizona to report on a century-old dispute on an Indian reservation Navajos muster for a last stand on land

ON THE parched uplands of north-eastern Arizona, one of the remotest corners of the US, small bands of Navajo Indians are gathering for a last stand against the federal Government.

Ten days from now, when most of the rest of the country will be celebrating the 100th anniversary of the Statute of Liberty, time will officially run out for the Navajo "resisters," who are fighting to keep their homes and their traditional way of life.

sowed the seeds of today's confusion. He established a reservation for the Hopi tribe "and such other Indians as the Secretary of the Interior may see fit to settle thereon" in the rectangular area shown on the map.

Over the years, the Navajo Indians, much more numerous than the Hopis, were driven westwards, largely by white migration and Government meddling with their own reservation's eastern boundaries. The nomadic Navajos increasing settlement of the village-dwelling Hopis, occupying most of the 1882 reservation outside the central Hopi area.

returned, but the episode raised fears of violence as the deadline approached. With the desolate, waterless plateau sweltering in the hottest weather of the year, tension is high.

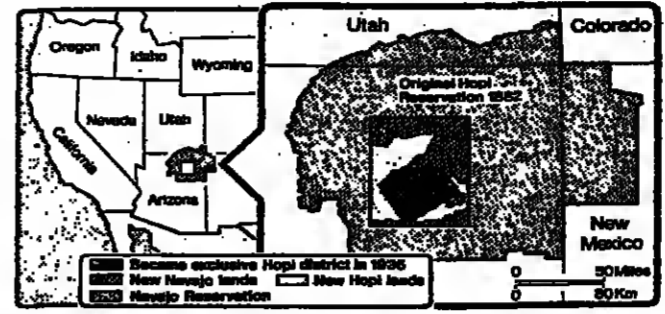
The Federal Relocation Commission in Flagstaff, the region's largest town, says that Navajos have flocked to its doors for resettlement incentives and that the "resisters" number only about 70 families, or perhaps 300 people.

Mr Lee Phillips, a lawyer who has taken up the Indians' cause, believes that this is on the low side, because many people who originally applied for relocation did not understand what it meant.

Indian spiritual attachment to the land assigned to the Hopis has found themselves quite literally "on the wrong side of the fence."

reservation, which the Government says are in fact more desirable. But the resisters say they are no substitute for the ancestral sites. More than half those who have so far been relocated have exercised their right to move off the reservation into urban areas, where many have fallen victim to loan sharks, alcoholism, family break-ups, and destitution—common phenomena when Indians try to adapt to the white man's world.

As so often in the American West, land claims and mining rights are inextricably intertwined in the Hopi-Navajo area, which sits on an estimated 190m tonnes of coal, plus lesser quantities of uranium, natural gas, and oil. It already contains the world's largest strip mine, run by the Peabody Coal Company.



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World Court to rule today on Nicaragua case

BY STEWART FLEMING IN WASHINGTON

A DELEGATION of top Mexican officials headed by the recently-appointed Finance Minister, Mr Gustavo Petricoli, is due to hold meetings in Washington today with senior US and International Monetary Fund officials in the continuing search for solutions to the Mexican debt crisis.

Mexicans to meet IMF

BY STEWART FLEMING IN WASHINGTON

York Times story as inaccurate, although some officials in Washington felt that it was certainly plausible. US-Mexican relations are clouded not only by Mexico's debt problems but also by attacks in Congress, led by Senator Jesse Helms, on the Mexican political system and its tolerance of corruption and drug trafficking.

World Bank \$500m loan for Brazil

BY OUR WASHINGTON STAFF

THE World Bank yesterday approved a \$500m (\$329.5m) economic adjustment loan to Brazil after the US had dropped its earlier opposition to the deal.

Move to curb credit boom

BY IVO DAWNAY IN RIO DE JANEIRO

THE Brazilian Government yesterday prepared a new measure to restrict the boom in consumer spending by reining in consumer credit.

BASF Aktiengesellschaft Notification of Dividend BASF'86. The Annual General meeting held on 26th June 1986 confirmed a dividend in respect of the year ended 31st December 1985 of DM 10 per share of nominal value DM 50 existing prior to the capital increase of September 1985, and a dividend of DM 5 per new share of nominal value DM 50 arising out of the capital increase.

Get your News early in Köln. JAPANESE semiconductor makers and purchasers are increasingly gloomy about the prospects of a constructive end to the long-running US-Japan semiconductor talks.

Gloom grows among Japan's chip makers over row with US. Japanese market. But some Japanese chip makers are now saying they would rather have the dumping suits than the agreement which their negotiators appear set to accept.

Israelis search for partner to share Lavi aircraft costs. ISRAEL is urgently seeking a co-production agreement with a major US aerospace manufacturer to build the Lavi, an advanced, multi-role aircraft. Sharing the \$2.2bn development and pre-production costs is regarded as the best hope of saving the threatened project.

LIÈGE. For an increasing number of decision-makers worldwide, the best possible start to the business day is the Financial Times. Anst earlier it is in your hands, the greater value it is to you as a working document.

THE BANGKOK Mass Transit Authority (BMTA) has invited new bids on a contract to lease 1,200 buses. Motor & Leasing offered to lease 1,000 buses to BMTA for \$13.8m (\$9.2m) a year.

Alstom subsidiary wins US cruise ships order. THE SHIPBUILDING subsidiary of the French Alstom engineering group, Chateaux de l'Atlantique, has won a \$300m order for the construction of two passenger cruise ships from the Los Angeles-based Stimar Cruises company.

Alstom subsidiary wins US cruise ships order. The deal, after long negotiations, is crucial for the Alstom subsidiary, itself controlled by the nationalised CCE group, at a time of dire difficulties in the French shipbuilding sector.

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UK NEWS

Oil price inflicts toll on trade performance

BY WALTER ELLIS

THE CONTINUED stagnation in oil prices exacted a heavy toll on Britain's visible trade balance in May. Figures released yesterday by the Department of Trade and Industry show a provisional deficit of £686m for the month after a revised deficit of £265m in April.

Three months to the end of May, the current account showed a deficit of £200m, compared with a surplus with a surplus of £1.7bn in the previous three months. March was particularly bad month, showing a shortfall of £714m.

There was a deficit on visible trade in the three months to May of £2.1bn against a £200m deficit for the three months to February. The surplus on invisible trade for the March-May period is projected at £1.9bn - unchanged from the previous three months.

The May surplus on invisibles of £700m - the same as for April - is made up of a larger surplus on the transactions of the private sector and a smaller deficit on government business.

Spending power rises 1.2% in first quarter

BY GEORGE GRAHAM

BRITISH consumers' spending power rose by 1.2 per cent in the first quarter to stand 3 1/2 per cent higher than a year earlier, the Central Statistical Office (CSO) said yesterday.

Wages and salaries rose by 8 1/2 per cent from the previous year, or 8 per cent if allowance is made for the effect of the coal strike, while UK income taxes stood 1 1/2 per cent higher than a year earlier.

Total personal incomes amounted to £79.6bn in the first quarter, with 56 per cent of this accounted for by wages and salaries. Other personal income, including profits and dividends, stood at £16bn in the first quarter, a rise of 8.8 per cent from the same period a year earlier.

Retail credit was 22 per cent higher in the quarter than a year earlier, while new car finance rose by 24 per cent. Personal loans maintained a steady growth rate of 14 per cent over the year.

NOTICE OF REDEMPTION

To the Holders of

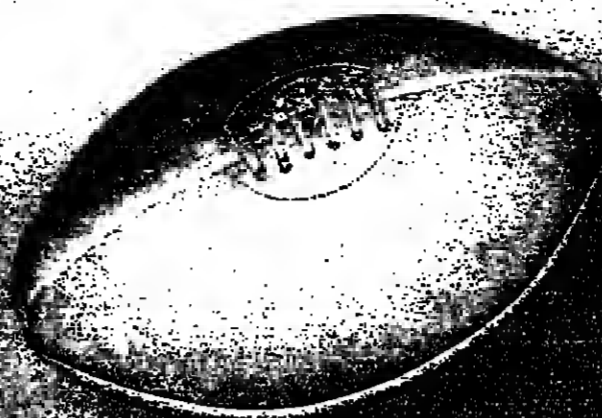
General Mills, Inc.

U.S. \$100,000,000 12% Notes, Series A, due December 19, 1991

NOTICE IS HEREBY GIVEN to the holders of the outstanding 12% Notes, Series A, due December 19, 1991 (the "Notes") of General Mills, Inc. (the "Company") that, pursuant to the provisions of Section 7(a) of the Series A Fiscal and Paying Agency Agreement dated as of December 19, 1984 between the Company and Morgan Guaranty Trust Company of New York (the "Fiscal Agent") and Paragraph 4(b) of the Terms and Conditions of the Notes, the Company has elected to redeem on July 15, 1986 U.S. \$10,100,000 principal amount of the Notes (the "Redemption Notes").

OUTSTANDING NOTES OF \$5,000 EACH BEARING THE FOLLOWING DISTINCTIVE NUMBERS: 38 486 811 1146 1510 1853 2229 2565 2874 3203 3577 3934 4319 4643 4925 5216 5516 5823 6137 6466 6807 7161 7530 7917 8313 8718 9133 9566 10017 10494 10996 11513 12054 12620 13210 13823 14459 15130 15834 16562 17314 18098 18917 19772 20664 21581 22534 23523 24548 25600 26681 27791 28930 30138 31396 32704 34062 35470 36928 38436 40004 41632 43320 45038 46886 48764 50682 52680 54758 56896 59094 61352 63670 66048 68486 70994 73622 76280 78968 81686 84454 87282 90160 93098 96096 99154 102272 105450 108688 111976 115324 118732 122190 125708 129286 132924 136622 140380 144198 148076 151914 155762 159620 163498 167386 171294 175222 179170 183138 187116 191114 195132 199170 203228 207306 211404 215522 219660 223818 228006 232214 236442 240690 244958 249246 253554 257882 262230 266598 270986 275404 279842 284300 288778 293276 297794 302332 306890 311468 316066 320694 325342 329910 334508 339126 343764 348432 353130 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MARKETS

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Today's international equity markets present investors with exciting choices and opportunities; but to securities firms, they present great challenges and demands.

To maximise the opportunities, investors need access to the best research, dealing and administration capabilities, and up-to-date information systems and technology.

The challenge for securities firms is to develop and organise their structure and services to meet the varied demands of the global investor: and perhaps even more importantly, to

do so in a way which is easily understood and accessible.

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On the one hand, a global force with research, sales and dealing operations in all the world's key financial centres; with a huge investment in computer systems; and capab-

ilities extending beyond equities into warrants, options and convertibles.

But on the other hand, an organisation which will continue to be based on client relationships and on service.

In short, we believe it's a structure which will help you to take advantage of any opportunity, anywhere in the world.

It has to be.

Because international players always set higher standards.

COUNTY SECURITIES

Nobody's in better shape

The NatWest Investment Bank Group

THE POTTED plants are blooming on the previously neglected terrace of the large and impersonal executive lounge on the top floor of the Peugeot headquarters in central Paris. There is also a prevailing mood of quiet confidence these days in the functional building of the French private car company which groups together the Peugeot, Talbot and Citroen marques.

Peugeot, France's largest private enterprise, has just returned to the black announcing consolidated net group earnings of FF 543m (£51.2m) for 1985 after five consecutive years of losses totalling about FF 8m (£755m). Group sales have now risen over the psychological level of FF 100bn. Jacques Calvet, the former banker brought in by the Peugeot family to help the car group recover, expects profits to continue to rise this year.

As a sign of its new confidence, the company is planning to buck the general industry trend by boosting its maximum production capacity. And this despite its increasing alarm over French Government plans to bail out the troubled state-owned Renault group, Peugeot's main rival in the domestic market. Indeed, the private group has been claiming that Renault is undercutting the market to regain market share as Peugeot's expense.

"The die has now been cast. We are now pretty sure that the next three to four years will be good for Peugeot barring, of course, any unforeseeable calamities," says Calvet, chairman of the group and the principal architect of its recovery. Peugeot's profits are expected to rise to between FF 2bn-FF 3bn this year. At that level, company insiders suggest that the group will again distribute a dividend to shareholders for the first time since 1981.

But the recovery, and Peugeot's overall financial situation, remains relatively weak, especially compared with the profitability of the French group's major international rivals like West Germany's Volkswagen and Italy's Fiat and the big Detroit manufacturers in the US with major shares of the European market.

Another sign that a new leaf has been turned at Peugeot is the decision of Chrysler to take advantage of the recovery of Peugeot's share price and sell its 12.5 per cent stake in the French company. This move marks the final chapter in what has undoubtedly been the most difficult period in the history of the French car group.

Most of Peugeot's problems in the last years result from the group's expansionary policies of the 1970s with the acquisition

French motor industry

Peugeot pulls out of the pits

Paul Betts reports on the family company's targets following its return to profits

first of Citroen and then of Chrysler's European operations. From the beginning, the Chrysler deal became a tale of unending disasters for Peugeot. But the group has now finally completed the restructuring of the former Chrysler assets and Citroen, which had also been losing money heavily, is also now on the road to recovery and profitability.

The Chrysler operations in France, Spain and the UK, renamed Talbot by the French group, have now been completely integrated in the Peugeot production system. The group has dropped the Talbot name in France and the large Poissy plant of Talbot outside Paris is now the main manufacturing facility of the Peugeot latest medium size saloon, the 300. At Ryton, near Coventry, in the UK, the group produces the Peugeot 309 and kits for export to Iran. In Spain, Talbot Solaris and Horizons are still produced as well as the Peugeot 205 supermini. The Peugeot 209 is also due to be assembled at the Madrid plant later this year.

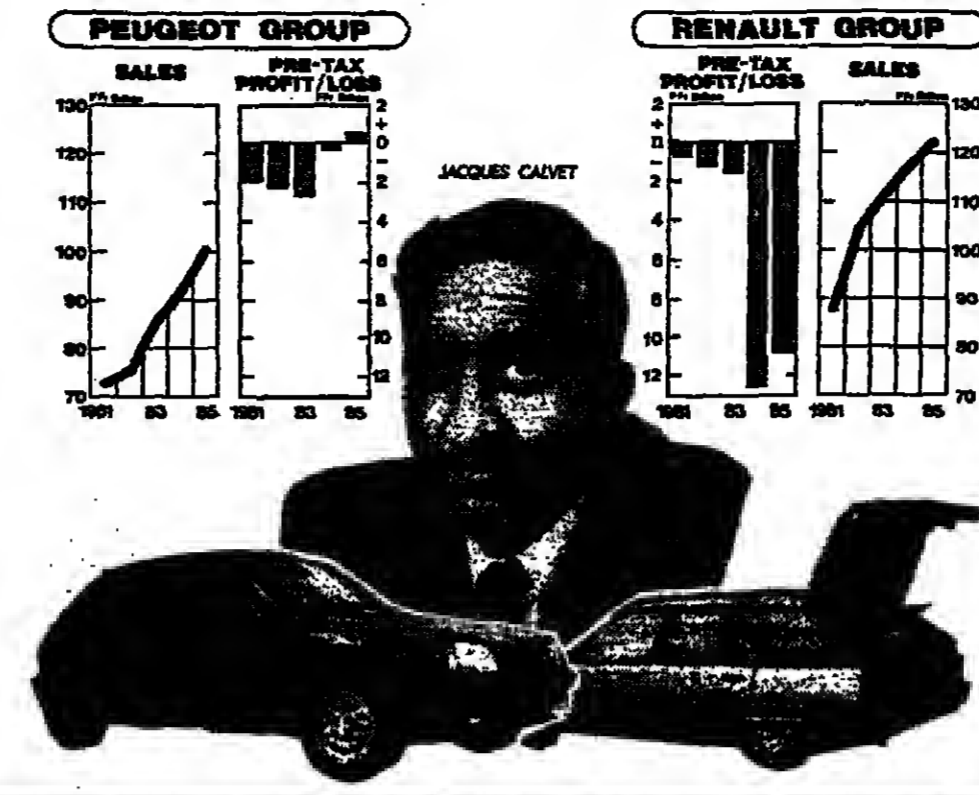
Although the group says it is holding on to the Talbot marque, the name associated with most of the group's former problems in France appears destined for gradual extinction. All the more so as the group seeks to reinforce its image and recovery on the back of the commercial success of its Peugeot 205 supermini and of

the Citroen BX medium sized saloon. The success of the 205 in the world rally championships has further helped change the group's image from loser to winner.

Calvet describes the strategy of the group up to now as "a relatively basic industrial policy." Even before he arrived, this strategy consisted of integrating and rationalising the various industrial operations of the group, improving productivity by substantial reductions in the group's workforce, integrating disparate dealer networks, and reducing debt and financial charges by cutting general costs and strengthening the balance sheet by reducing short term debt and increasing long and medium term debts. This has included a FF 960m bond issue with warrants and a FF 923m rights issue.

"Our priority was first to clean up the business. Now we face the even harder job of continuing to make progress from a reasonable level of efficiency," says Calvet. To this end, the Peugeot chairman—who was named "manager of the year in France" for his achievements at Peugeot—explained that the group would have to define more precisely and "fine tune" its management and industrial strategy.

One of the key and most original aspects of this new strategy is Calvet's decision to increase Peugeot's production capacity from a current level of



about 1.85m cars a year to 2m cars in the next few years. Currently, Peugeot will continue with its efforts to reduce its production break-even point. This has been coming down steadily from a whopping 2.2m cars in 1980 (compared to the group's total production of 1.65m cars that year) to 1.6m cars last year. Calvet's target is a further fall to 1.4m cars this year and to 1.2m next year.

The decision to increase production capacity contrasts with the strategies of other car groups which are seeking to cut production. Calvet emphasises that Peugeot has no intention of building new car plants but plans instead to upgrade and adapt existing plant to squeeze more capacity out of it. Indeed, the company is continuing to close old economically unviable plants in France.

"We have already drawn up detailed plans to make improvements inside our plants and also to help our suppliers of parts and equipment make the necessary improvements to enable us to increase production if necessary," says Calvet. The idea is for Peugeot to have as flexible a production system as possible to enable it to take advantage of changes in the pattern of car demand in different markets. Each plant can quickly switch to produce more of a given model. Calvet is currently banking on an eventual recovery of the French market from its recent depressed levels and of a

continued advance in sales on a strong European market. Peugeot plans to introduce a major new car model each year, alternating between Peugeot and Citroen marques. In the autumn Citroen will be launching a new mini called the AX. The group is also eyeing the US market where its efforts so far to penetrate the American market for so-called European luxury imports have been disappointing.

To improve productivity, Calvet says Peugeot will continue to try to reduce in the next few years its workforce by 3 to 4 per cent a year. Peugeot now employs 175,000 people—in 1983 the figure was 203,000.

The company is striving to introduce greater labour flexibility in its operations not only for blue collar workers but also for middle management, offering opportunities for part-time work, unpaid leave and incentives for managers to leave the company. The Peugeot division is seeking to reduce management staff by 370, more than 10 per cent of the total.

In its plants, Peugeot is not seeking to automate production completely. "We do not want to automate 100 per cent like some of our competitors," says Calvet. "We adopt a Japanese approach of automating some operations but not all of them. We believe some jobs are still better done by men rather than machines." The group is also continuing

to improve the integration of its production system while preserving the separate corporate identities of its Automobiles Peugeot division and its Citroen subsidiary.

Calvet is categorically opposed to any major agreement or merger with another car group to rationalise production, but would be interested in specific and more modest ventures with other manufacturers.

"We are not planning to do anything spectacular but useful and profitable smaller things as we have already done in the past like the joint production of a small van with Fiat," explains Yves Rapilly, the group's financial director. Rapilly also said the group planned to go on developing a flexible financial strategy to reduce debt charges. Peugeot's debts are still large, totalling FF 82,650m at the end of last year, but it hopes soon (though probably not this year) to finance annual capital expenditure from internal cash flow.

Capital expenditures last year increased by 45 per cent to FF 5.9bn and are expected to rise by a further FF 1.5bn this year. By contrast, cash flow amounted to FF 4.24bn last year and will rise significantly this year.

Although Calvet says the group has at present no plans to return to shareholders for fresh capital, financial analysts expect a new rights issue by

Peugeot in the not too distant future.

Despite its turnaround Peugeot is also showing signs that developments at its state-owned French rival, Renault are making it nervous. The state car group is now struggling to recover after reporting a record loss of FF 12.5bn in 1984 and another huge loss of FF 10.9bn last year.

Georges Besse, chairman of Renault has launched a sweeping restructuring programme aimed at recentring the state group's businesses on its core car manufacturing operations—a move which is slowly beginning to bear some fruit. Renault operating losses are believed to have been cut to about FF 500m a month so far this year compared with about FF 1bn a month during the first half of last year. But Renault also urgently requires a major restructuring of its balance sheet and is seeking some FF 15bn to FF 20bn in support from the state, its sole shareholder.

Calvet is opposed to the state halting out Peugeot's main domestic competitor with FF 15bn or more. He argues that this would seriously distort competition and be grossly unfair to Peugeot, though he is not opposed to what he calls a "reasonable" level of state support for Renault.

Moreover, Calvet, who has voiced his concern directly to Edouard Balladur, the conservative finance and economy minister, is also worried by Renault's recent aggressive marketing strategy in France. Latest French car registration figures show that Renault, boosted by the launch of its new R-21 medium sized saloon, is improving. Indeed, Renault again overtook the Peugeot group in May with a 32.5 per cent share of the domestic market compared to just under 30 per cent for Peugeot. At the end of last year Peugeot had over 33 per cent of the French market while Renault was below 30 per cent.

But Renault, in turn, has been increasingly irritated by what it regards as a "guerrilla" campaign against the state group by its private rival. They are now financially healthy again and we are still in the dumps. We are doing all we can to recover," says a Renault official, echoing Renault management annoyance at what the state group feels are unjustified attacks and innuendos by Peugeot over Renault marketing policies.

"It's the same old story. As soon as we start doing a bit better than them commercially on the domestic market the Peugeot people start losing their cool," remarks another Renault insider.

Management abstracts

Should Advertising Always be kept "Simple"? M. C. Macklin and others in Journal of Advertising (US), Vol 14 No 4 (8 pages).

Asserts that the view that ads should always be kept "simple" is to be challenged: a survey shows that increasing difficulty of "readability" makes no difference to recall, attitude or purchase intention.

News versus Entertainment TV Viewers. T. A. Swartz and L. Meyer in Journal of Advertising Research (US), Dec. 1985-Jan, 1986 (8 pages).

Considering the influence of TV programme content on advertising, reports research aimed at finding whether viewers' use of, and attitudes to, television provides a basis for developing more effective advertising. Identifies three user segments: the largest is interested in being entertained, the smallest is interested in news/information, and the other is a mixture of both; draws broad conclusions about what this indicates about advertising preference.

Export Market Research. S. T. Crusgill in Business Horizons (SA), Nov/Dec 85 (7 pages).

Points to the need for market research by companies intending to enter foreign markets; surveys how a sample of companies used export market research, particularly to identify markets, assess sales potential, and identify distributors/agents. Describes an approach in analysing foreign market opportunities, mainly through desk research, and the type of information to be gathered at each stage; defines information sources, and suggests some practical approaches to gathering information—including advertising, participation in trade fairs, and trade audits.

Using Focus Groups for Market Intelligence. E. H. Fram in Business Marketing (USA), Dec 85 (2 pages).

Describes the use of "focus groups"—internal think-tanks, headed by marketing management, comprising all staff with direct end-user contact—to provide market and product intelligence, as a basis for, inter alia, new product/customer service ideas.

These abstracts are condensed from the abstracting journals published by Adam Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p. & p. cash with order) from Author, PO Box 22, Wembley HA9 8SL.

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"How could I say anything else? SAS is always on time. They have excellent meals and the service is perfect. And what I like best of all is their once-a-week Trans-Siberian Express connection which arrives in Tokyo early in the morning instead of in the afternoon."

"So how could I possibly say anything else? I prefer SAS."

YASUYUKI AOYAGI
MANAGING DIRECTOR
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ITALY
Rome: Terme di Caracalla: The Rome Opera summer season opens with Alberto Fassano's production of Lucia di Lammermoor...

VIENNA
Staatstheater: Manon Lescaut conducted by Simeoni with Zampieri, Hinzemeyer, Heim, Mauro, Rydl, Gahnlich...

NEW YORK
New York City Opera (NY State Theatre): 20 weeks of summer opera including new productions of Werther, Don Quixote, The New Moon and the world premiere of Anthony Davis's X...

TOKYO
The Josei Merged Danzas: All-female performance as part of Japan's fascination with Spain and start of Tokyo's summer season of flamenco dance...

THEATRE
LONDON
The Normal Heart (Albany): Tom 'Annie' Falicki playing the unassuming hero of Larry Kramer's hysterical melodrama...

PARIS
French Masters of the 19th and 20th century: The catalogue of the yearly Robert Schmitt exhibition reads like a Who's Who in painting...

WASHINGTON
The Calm Mattie Court Martial (Elizabethan): Chautauk Houston and Ben Cross star in the military courtroom drama written by Herman Wouk...

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LONDON
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PARIS
The Calm Mattie Court Martial (Elizabethan): Chautauk Houston and Ben Cross star in the military courtroom drama written by Herman Wouk...

WASHINGTON
The Calm Mattie Court Martial (Elizabethan): Chautauk Houston and Ben Cross star in the military courtroom drama written by Herman Wouk...

MUSIC
LONDON
Alfred Brendel, piano and Heinz Holliger, oboe with friends: Beethoven and Mozart. Royal Festival Hall (Mon). (820 3137).

VIENNA
Vienna Boys Choir and the Bruckner Orchestra of Linz conducted by Lawrence Christian Harzer: Bach, Beethoven. St Stephen's Cathedral. (Mon).

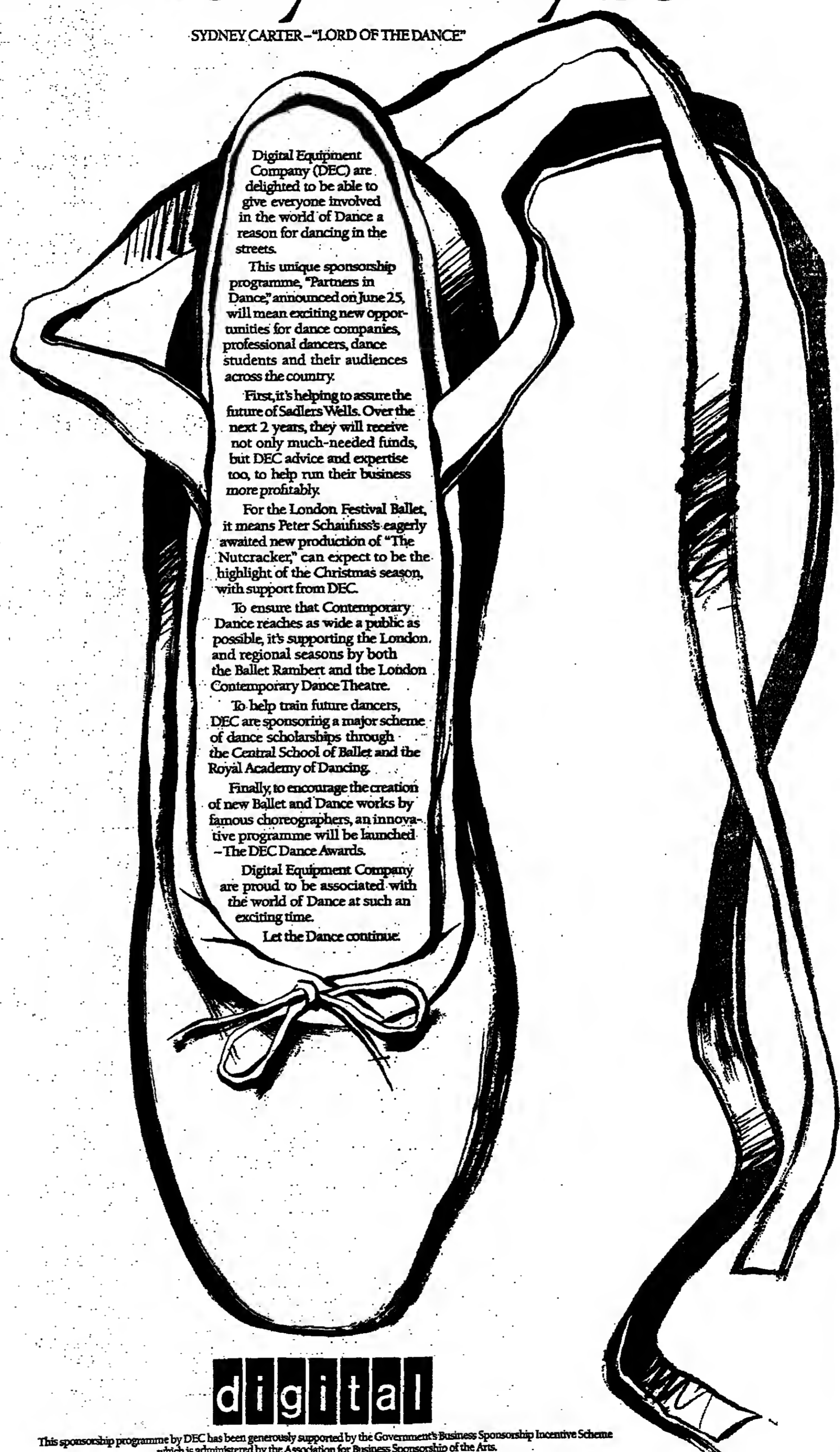
LEGAL NOTICES
IN THE HIGH COURT OF JUSTICE
CHANCERY
IN THE MATTER OF WESTWOOD DEANES plc AND IN THE MATTER OF THE COMPANIES ACT 1985

MUSIC
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Alfred Brendel, piano and Heinz Holliger, oboe with friends: Beethoven and Mozart. Royal Festival Hall (Mon). (820 3137).

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Politics Today

How the fire went out of the parties

By Malcolm Rutherford

THE BRITISH Conservative Party is embarking on a long internal debate about the next election manifesto—the one designed to win a third term.

The Tory Party is not alone in this dilemma. Nor is the debate confined to Britain. It is common to all the mainstream parties in Western Europe, left, right and centre.

This is not necessarily a bad development, but it ought at least to be recognised that it is taking place in order to get the best out of it.

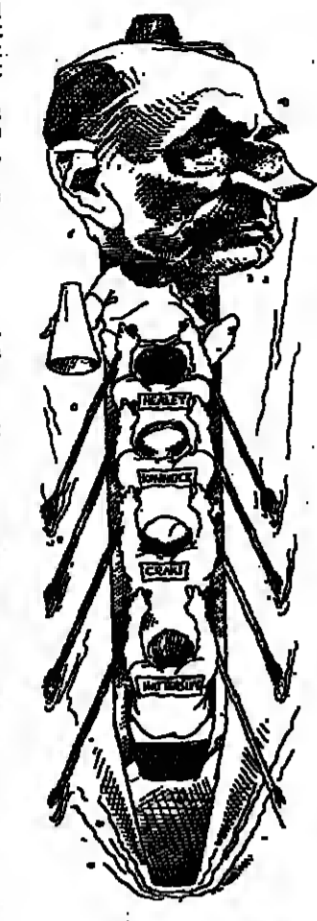
There were the student riots in the late 1960s which shaped the young left especially, but not only, on the continent.

One can see it all over Europe. It does not matter whether the Left or the Right is in power, neither there is some form of coalition; the policies are broadly the same.

In Spain, for example, last Sunday the Socialists were re-elected with a reduced, but not radical, programme.

In France the move away from the left happened earlier. President Mitterrand reversed his more radical programme.

After this year's National Assembly elections there is a Socialist President and a right-wing Prime Minister.



advances. On the contrary, some of the Christian Democrats are happy to serve under Mr Craxi in the hope that the Communist Party will fall into disarray.

labels do not matter very much. The predominant strand in West European politics is government by the centre-right, even if some of the participants are nominally Socialist.

How does Britain fit into the pattern? The answer is all too well. Since Mrs Thatcher became Prime Minister in 1979, the entire ground of British politics has shifted to the Right.

When he became SDP leader, Dr David Owen actually sought to out-Thatcher the Prime Minister on the social market economy.

There are other examples. In Austria it is said by those on the spot that the election of Mr Kurt Waldheim as President had nothing to do with a somewhat unimpressive and unimpressive performance.

The small Irish Labour Party says that its wings have been totally clipped by being in coalition with Dr Garret Fitz-Gerald's Fianna Gael.

In Norway, Mr Kaare Willoch, who is used to be described as the Norwegian Mrs Thatcher, is out and the Left is back.

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debate whether to be more radical or to seek to consolidate, the Conservatives have a genuine dilemma. They could campaign on the slogan that Labour has not changed, though it is doubtful how many people would believe it.

Unemployment is far too high for the Tories' electoral comfort; so is the uneasiness about depressed public spending on health, housing and schools, even if the popular belief is not wholly borne out by the official figures.

That suggests that the party will have to go for a new wave of radicalism. Yet it is remarkable how few ideas are around.

The linking of tax and social security benefits as computerisation takes over ought to be a runner, but it is already the property of the Alliance.

Defence may be different. Because the Labour Party wants to abolish British nuclear weapons and the Alliance is divided on the subject, the Tories may have an asset.

Thus while the left has ceased to be left, the radical right may have run out of steam. Perhaps Mrs Thatcher's main achievement will be to have created a new common ground called, for want of a better term, "centre-right".

Since most of Europe seems to be in a democratic election, it is time for another push towards greater European unity. All parties now accept the European dimension.

Lombard

A lament for old-time banking

By David Lascelles

IN ALL the excitement generated by the Big Bang there is an assumption, seldom questioned, that the whole process is a Good Thing: that the changes will bring greater depth and efficiency to the UK capital markets which will in turn benefit borrowers and investors, and boost the country's economic health.

Yet as any visitor to either West Germany or Japan cannot help noticing, both those have achieved economic miracles with capital markets quite obviously less well-developed than those in either London or New York.

Mr Peter Walker, the Energy Secretary spoke yesterday of the future of nuclear power, but it is very controversial. Even some Tories do not like it on their doorsteps.

But if it is true that the UK's market-based system of finance is at least partly responsible for the country's poor economic record, why try to reinforce and develop it further through the Big Bang? Instead of playing up the capital markets side, the more sensible course might be to study the German or Japanese example, encourage banks to expand their traditional lending role, and stiffen the markets a little.

round to the belief that capital is supplied more efficiently by markets than through intermediaries like banks, or at least by a more equal mixture of the two.

Without going into all the complexities covered by these sweeping statements, the worry must be that in the rush to stimulate markets, the world is losing something by downgrading the traditional role of banks.

The conventional answer to this well-documented paradox is that each country develops a financial system based on its customs: in Germany and Japan the banks traditionally play a bigger role in supplying finance, so the capital markets play a smaller role.

Industrial territories

It might be difficult for the British (and certainly for Americans) to accept the notion of banks going so far as to supply equity finance on a large scale to their corporate customers.

Of course, banks will continue to lend as they have before, so their traditional role will live on, even though many of them are actually aiding the shift towards the markets by turning their assets into securities and selling them to investors.

Economic record

Against that, both the Germans and the Japanese are currently going to great lengths to do quite the opposite: they want to "liberalise" their capital markets, and in the process they are inevitably downgrading the importance of bank finance, however marginally.

Perspective on South Africa

From the Chairman, Anglo American Corporation. Sir,—The general emotionalism surrounding the South African position doesn't help matters.

A main issue is whether apartheid is being expanded from the statute books. This needs to be distinguished quite clearly from the question of what is going to be put in its place.

But all this is easy compared with the next step, which is negotiation towards a new society and the constitutional structure, which will allow it to operate.

Nor should it want to adopt a course of action which has the effect of further inhibiting economic growth in South Africa. No process of negotiation can take place successfully against a backdrop of diminishing wealth and as it is we are severely constrained by our international debt problems.

Inheritance tax. From Mr R. Clark. Sir,—The status of potentially

Letters to the Editor

exempt transfer is denied by the Finance Bill gifts to discretionary and inter vivos possession trusts. Discretionary trusts stand rather on their own and I do not quarrel with that decision.

What seems totally unjustifiable is the retention of the charge on the release of life interests under existing trusts in possession trusts. It is very common for fathers to give or transfer to their sons but to settle it on their daughters for life with remainder to their children.

Green Belt or inner city. From the Chairman, Liverpool and Merseyside Branch, Institute of Directors.

Sir,—There appears to be mounting pressure to build on Green Belt land, particularly around the M25 motorway.

It is poor utilisation of our resources to allow development on green field sites, which thereafter require infrastructure, such as roads, houses, schools, libraries, services, etc.

It is time that the Government tackled the causes and not the symptoms of inner city decline, by putting a freeze on all de-

velopments on Green Belt/green-field sites. This would have to be in conjunction with auctioning off the freehold, of all derelict public-utility land, to produce an alternative low cost base to attract investment.

There would need to be a safeguard provision, that if any auctioned land hadn't been developed within, say three years, the company which sold the land had the right to buy it back at the same price or market price if lower.

The increase in M3. From Mr G. Kramers.

Sir,—The Eurobond market, until now, has considered itself supranational. Originally known as the Eurodollar market, its existence has never been recognised in the US and its activities are not recorded in that country's statistics.

In recent months one or two banks have issued more "perpetual floaters." Now free to do so, the building societies have borrowed a lot of money on the Eurobond markets.

Pre-occupied with old money. From Mr G. Smith.

Sir,—Judging by your pages and by the flood of unsolicited mail seeking to do my accounts, run my portfolio, save the tax, we are too pre-occupied with muddling on money already made and insufficiently concerned with making it. I foresee a collapse of the financial advice market!

The UK has only played host to the Eurobond market since its inception but after October 26 as part of Big Bang the UK will embrace the Eurobond market which will then be subject to the Securities and Investments Board.

Surely, the time will then have come for the Bank of England to publish the UK statistics which it publishes. If not, when the Government has a decision on the Eurobond market—the money supply will be increased as the money will have been borrowed.

Government provision. From Mr T. Arthur.

Sir,—Three cheers for Mr B. H. Fish, who points out (June 23) that Governments do not provide; they allocate resources extracted by force from the taxpayer.

A major current example of this deceit lies in employment, where the Government, even this government, is always "providing 50 or 500 jobs in somewhere or other" (with infrastructure the flavour of the year).

Mr Fish is also right to argue that the constant references to government "provision" largely account for the misconceptions about the functions of government. This is why the most important thing to privatise is education, so that the vested interests of the public sector do not contaminate fundamental attitudes.

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FINANCIAL TIMES SURVEY

Software Packages for Business

The Western European market for packaged software is already worth over \$5bn a year, but with an annual growth rate of as much as 30 per cent it could reach \$24bn by 1991.

A thriving market

By ALAN CANE

THE COMPUTER software packages industry is flourishing, and its growth is the proof that businesses will bend to accommodate "alien" ways of working, no matter how unique they believe themselves to be. If that is the economics are right. When computers were large, cumbersome and expensive and therefore used only by the larger corporations, those companies had software written to suit their every little quirk. As a method of developing business software, it resulted in satisfied customers (eventually), but at a high cost both in cash and time.

As the cost of hardware fell with the introduction of mini-computers — cheaper, simpler but with many of the capabilities of mainframes—it became obvious that the economics of software production would have to change.

The mini itself might cost £100,000 or less; a custom-built program suite of some complexity might easily cost the same.

So there was an irresistible logic in creating generalised software programs which could be applied to a number of different companies for tasks such as payroll, accounts receivable and so on with only a minimum of alteration to suit the quirks of the individual company.

With the introduction of the low-cost business microcomputer, the package came into its own. There was simply no logic in spending \$10,000 to have written a specific piece of software when, produced as a package and sold to hundreds of customers, the same software might cost only \$500.

Today, three categories of software package are generally distinguished.

First, systems and utilities. These packages include operating systems (the complex programs which direct the internal workings of a computer and determine its relationship with the outside world) and com-

pilers and assemblers (programs which translate between high level or English-like languages understood by programmers and the stark patterns of pulses of electricity understood by the computer).

Second, applications, tools, software. This includes all those programs which make it possible for the computer to handle applications effectively — data management software, for example.

Third, application software, programs which carry out the task—or one of the tasks—for which the customer bought the computer.

Packages of all three kinds are built by hardware manufacturers, by systems houses and by software houses. They are built for all sizes of machines. A major financial package for a big company written by, say, Management Science America or McCormack and Dodge to run on a mainframe, might cost \$100,000.

A package written to run on the IBM Personal Computer or one of its "clones" (designed and built by another manufacturer to run the same programs as the IBM original) will almost certainly cost less than \$500.

In Western Europe, figures from the consultancy International Data Corporation suggest that the market for pack-

aged software was \$5.2bn in 1985 and that it will grow by between 28 and 30 per cent every year up to 1991 when its total value will be \$24bn.

But although packaged software is clearly one of the computing services business's strong points, there are local anomalies.

Dr Douglas Eyelons, director general of the European Computing Services Association, reviewing UK market characteristics notes in a recent survey: "Hardware manufacturers increased their market share chiefly by large increases in sales of packaged software from \$449m to \$601m, an increase of 34 per cent or 34 per cent during the year."

"In contrast, systems houses increased their revenues from packed software by only \$34m during the year. Changes from long term licensing to outright sales of software products during the year may have caused some misleading distortion of growth rates in this sector for the hardware manufacturers and there is no doubt that the overall growth rate for packaged software is lower than the very high growth rate of 37 per cent reported in 1984."

According to Ms Kate Brown, software industry specialists of the International Data Corpora-

tion, three themes will dominate the package business this year—site licensing, multi-user packages and micro-mainframe links.

● Site licensing: The computer business, in common perhaps only with the video and audio tape industry, is curious in that it provides its customers with the means of copying, illegally, its products. The high flying package companies such as Lotus, author of 1-2-3 and Micro-Soft, originator of the MS/DOS operating system, had been losing heavily through unauthorised copying of their programs.

Furthermore, with the development of networking, it becomes simple to move a program from one machine on one site to other machines on other sites.

There have been attempts to develop hardware and software gadgets (dongles) to beat the pirates, but none of these have achieved overwhelming success so far.

Software authors have therefore decided to cut their losses by controlling the amount of copying that can be carried out through site licences with the incentive of a volume discount on multiple copies of the product.

● Multi-user packages: the trend among the bigger micro-

computer users is towards multi-user machines, single microcomputers which support a number of users each working at a separate keyboard and screen.

Single user software is not the most efficient for these machines and the development of sophisticated software which will make the most of the power of a multi-user microcomputer is expected to be a major growth area in the coming months.

● Micro-mainframe link software: It is comparatively easy to attach a microcomputer to a mainframe, but considerably more difficult to make it carry out any useful tasks.

The problem is that the information stored in the mainframe is highly organised in a fashion which is often incomprehensible to the micro. The two machines are organised differently and the codes they use to ask for, or send, information are quite different.

Micro to mainframe links do exist but most have quite strong constraints on their use. So software developers are working towards a package which could truly be described as a universal link.

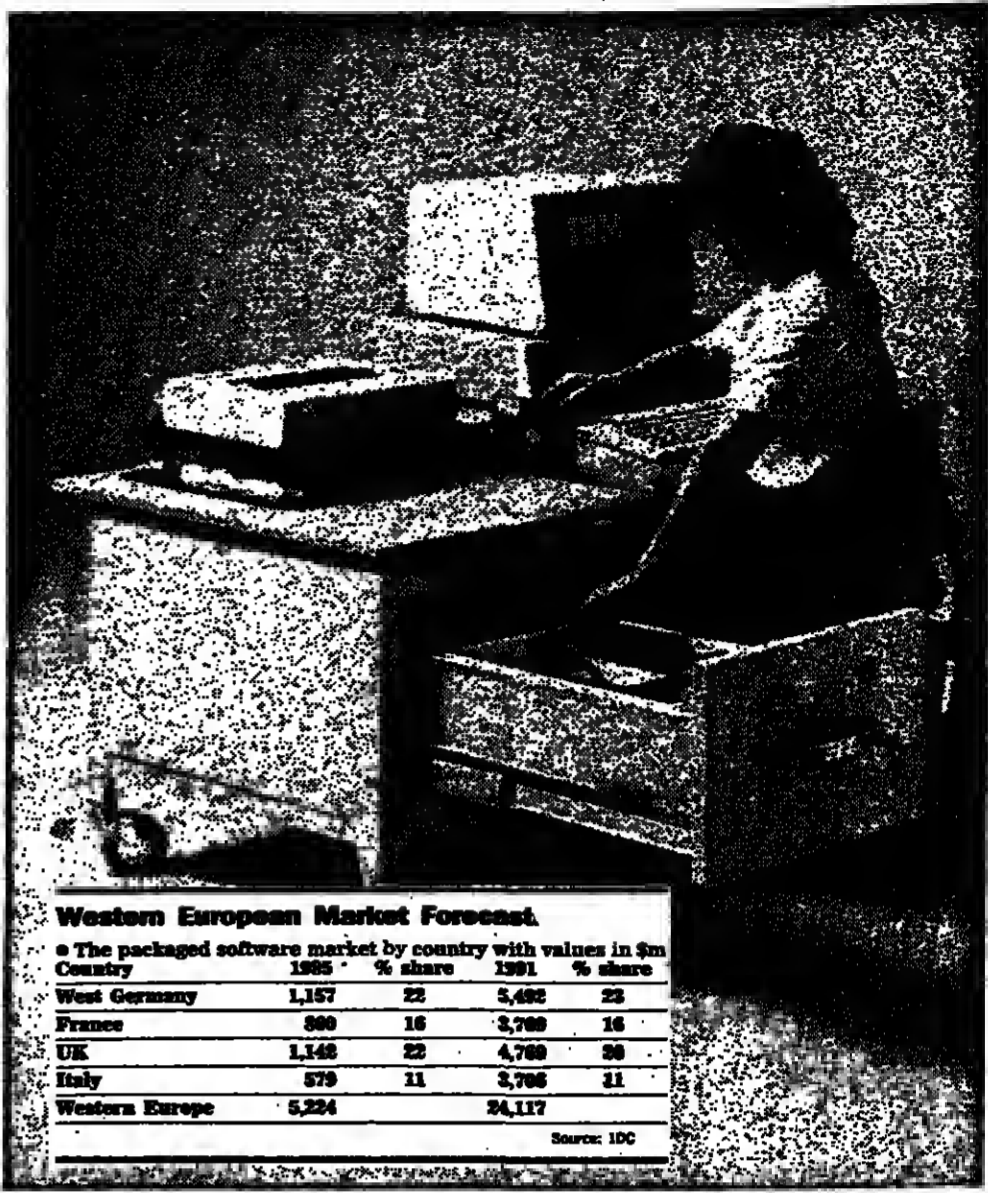
Other trends include moves to drive down the cost of standard packages by cutting out frills, bells and whistles.

Companies such as Borland International in the US, for example, have prospered by selling functional software at very low prices, \$100 or less.

Finally, there is a trend towards "internationalising" packages. US systems and application tool software has always done well in Europe because it is independent of local custom and practice.

Accounting and other packages which have to observe local legal and other constraints to the letter have had to be rewritten at high cost.

Moves to make internationalisation easier and less expensive are expected to be a major feature of the package software business in the coming months.



Western European Market Forecast

Country	1985	% share	1991	% share
West Germany	1,157	22	3,482	23
France	980	18	2,789	18
UK	1,148	22	4,788	30
Italy	579	11	2,708	11
Western Europe	5,224		24,117	

Source: IDC

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SOFTWARE PACKAGES 2

Operating Systems

Microcomputer users have freedom of choice

OPERATING SYSTEMS for microcomputers constitute an important and highly technical subject.

Such systems work between the user application and the microcomputer, providing services that are common to all applications. They are comparable with the gearbox in a car. Most drivers are not familiar with the workings of gearboxes, nor are they interested. They want to be able to get into the driving seat, start the engine and go.

Unfortunately, even the most casual of microcomputer user has to be aware of the workings of operating systems because of the way the industry has developed. Manufacturers of larger computer systems provide their own operating systems with their computers.

This makes it much easier for the operating system to be hidden from the user because the complete system comes from a single source.

Microcomputers originated in the semiconductor industry and operating systems are supplied by third-party software makers, not the "chip" manufacturers. This means that the micro-

computer user is free to choose the operating system.

But it also means that applications software must be made for a specific operating system, so users have to know which system is being employed on their microcomputers and whether the application they want to use will work with it.

When IBM launched its personal computer in 1981 it gave users a choice of three different operating systems:

- Digital Research's CP/M, a well established operating system for earlier microcomputers with a wide range of applications already existing for it.
- Microsoft's MS/DOS, a new system specifically developed for the IBM.
- The UCSD system, developed by the University of California, San Diego, for academic users.

Microsoft's MS/DOS was the model for PC/DOS. IBM's "own" operating system for its personal computer and quickly emerged as the preferred choice. Third-party software suppliers built their applications to work with MS/DOS and IBM PC "clone" builds, such

as Compaq and Olivetti, adopted it for their personal computers. MS/DOS is now firmly established with over 4m users worldwide.

In a perfect world, microcomputer users would be able to forget about operating systems and get on with what they bought their computers for in the first place. The problem is that hardware technology continues to change and users demand still more from their systems.

"MS/DOS is a market standard and users have been able to ignore it and the issue of operating systems," says Mr Paul Bailey, European vice-president of Digital Research, Microsoft's chief rival in the operating system world.

"But there are reasons why that is changing. Users want more memory and there is a limit to what MS/DOS can offer. And there are new applications, especially in the graphics area, where the current version of MS/DOS is not adequate," Mr Bailey adds.

When the first IBM personal computers came out the memory facility was much smaller than now. An average system would have about 256,000 characters. The current version of MS/DOS can control up to 640,000 characters, which might seem more than enough. But, as Mr Bailey points out, personal computer users want better screen resolution, higher performance and the ability to

use several different programs at once.

All of these features need large amounts of memory and 640,000 characters is just not enough. Furthermore, leading software developers such as Lotus and Ashton-Tate want to extend their applications software to include new features that need large memory sizes.

Lotus has found a temporary solution by developing a memory extension standard with Intel, the main chip-maker for personal computers. By using an "add-on" board, Lotus 1-2-3 users can work with much larger spreadsheets.

Although these extension boards, manufactured by Intel, AST and, more recently, Quadram, allow greater memory sizes for data, they will not allow larger programs. Users still cannot enjoy the benefits of running more than one program at once (multi-tasking) nor can they expect improvements in graphics and screen resolution.

While users are expecting better performance from their microcomputers, chip technology is improving to allow this. The current "standard" chip used in IBM personal computers is the Intel 80286.

This chip is capable of controlling up to 16m characters of memory. But MS/DOS is still limited to 640,000 characters. The combination of user demand for better features and the advances in chip technology has led to speculation over the

future of MS/DOS's role as the standard personal computer operating system. Microsoft's competitors are keen to exploit this and a lively debate on operating systems is the result.

Digital Research, for example, has scored a couple of points over Microsoft with prestigious deals with IBM and ICL. Its Concurrent DOS operating system, which offers the benefits of MS/DOS without the memory limitations, has been chosen for several new products announced by these manufacturers.

Rival operating systems have also emerged, including AT&T's Unix and the Pick. These systems are designed for larger computers and are unlikely to effect the large MS/DOS user base.

Although Microsoft does not face any immediate danger, these factors are pushing pressure on it to upgrade MS/DOS. A new version, MS/DOS 5, is on the way and it is expected to resolve the memory limitations in addition to offering multi-tasking features.

"We are putting a lot of work into MS/DOS 5 and, together with our Windows product, this should go a long way to meeting people's needs," says Mr Phil Sutcliffe of Microsoft.

"I think that there is still a lot of mileage in the current version of MS/DOS and people have not really got started with what is available now," he adds.

Software product category forecast

● The software and services market in Western Europe by product category in \$m

Year	Packaged software	Custom				Total			
		share	% software/ consultancy share	Training/ FM share	Processing services share				
1985	5,224	34	4,356	29	778	5	4,807	32	15,166
1986	11,481	43	7,838	29	1,395	5	6,262	23	28,976
1991	24,117	50	13,754	28	2,483	5	7,948	16	48,317

Source: IOC

Market shares

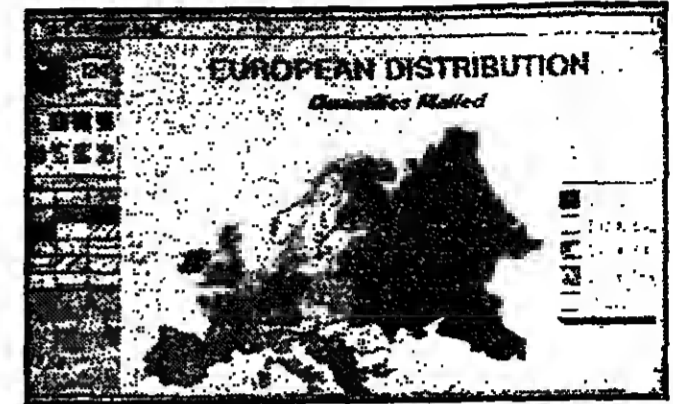
● Sales through dealers during the first quarter of this year

Software market	Share (%)
Spreadsheet	30
Word processing	28
Database	22
Integrated	11
Graphics	9

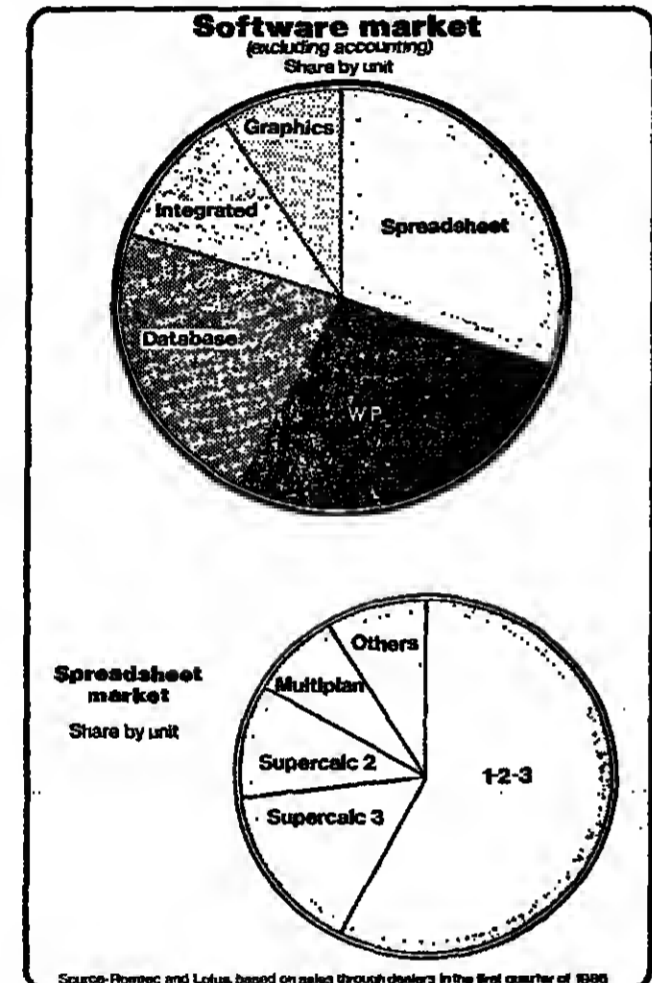
Spreadsheet 1-3-3	Share (%)
Supercalc 2	58
Supercalc 3	16
Multiplan	9
Others	9

Integrated	Share (%)
Symphony	38
Framework	17
Smart	13
Others	22

Source: Rowtree, Lotus



GEM Graph, a microcomputer applications package from Digital Research, can create a variety of graphs and charts from spreadsheet data at the touch of a button.



The AT & T Unix PC, when used with the AT & T 610 business communications terminal (front and rear) is the heart of an efficient multi-user system.

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Expert Systems

Forum on artificial intelligence

THIS WEEK about 50,000 people assembled at one of the largest conferences ever held to discuss artificial intelligence. About 40,000 delegates from the US and 10,000 from Europe were linked by satellite for what was described as the first Transatlantic Satellite Symposium.

Sponsored by the US chip maker Texas Instruments, it links up artificial intelligence researchers on both sides of the Atlantic. Speakers include Ed Feigenbaum, from Stanford University, John McDermott, from the Carnegie Group, and Harry Tenant, of Texas Instruments.

The formidable list of speakers and the sheer size of the event should indicate the importance now attached to artificial intelligence. Expert systems are the most exciting area of programming in the computer world. The notion of capturing the human skills and knowledge in a computer system, turning it into a set of rules and presenting it to non-experts is attracting a lot of interest.

Expert systems is the first branch of artificial intelligence research to yield practical results and next week's conference will include reports of systems in practice. It is a rare success because companies are generally tight-lipped about what they are doing with expert systems.

"We have four or five clients developing systems. But they are all reluctant to talk about what they are doing. That is the nature of the expert systems business," says Mr Bernard Dodwell, sales manager of ISI, an expert systems software company part-owned by ICL.

"We can talk in general terms about the problem they are trying to solve, but not in detail," he adds.

"But there are very few applications around in the financial world so far," he adds.

Over the past two years there has been a boom in development tools like Savelit, ranging from proprietary "shell" to standard programming language compilers designed for artificial intelligence applications. This boom suggests that a lot of development activity is taking place.

Texas Instruments held a European-based satellite conference on artificial intelligence last November, when it surveyed the delegates to measure how much development activity there is. From 3,000 replies it found that one of a long list of projects aimed at helping expert systems development.

Savelit is being used by an insurance company to develop a system that will assess insurance risks and instruct brokers about reinsurance. Several banks are also using Savelit for undefined projects, according to Mr Dodwell.

"But there are very few applications around in the financial world so far," he adds.

The Texas Instruments conference next week is intended to meet the increasing demand for information about expert systems. "The market is hungry for information," says Mr Steve Thomas, Texas Instruments marketing manager in the UK.

"There is still not enough awareness of the capabilities and limitations of expert systems," he adds. "A lot of talk about expert systems concerns futures and it has been seen as a panacea for the problems of using computers."

The reluctance of developers to reveal the results of their work is not helping the process of demystification and Mr Thomas agrees with Mr Dodwell that people are keeping quiet about developments.

"There is no doubt that you can gain leverage in the market through use of expert systems, so people do not want their competitors to see what they are doing," says Mr Thomas.

So far, expert systems have been applied to scientific and technical disciplines such as the evaluation of chemical structures with Deudral and medical diagnosis with Mycin. Deudral and Mycin are the two best-known expert systems to have been proved in practice.

There has also been progress in applying expert systems in the computer industry itself and manufacturers are using them to help fault diagnosis in computer systems.

Commodore also launched Lisp language compilers to work with their computers last year.

Lisp is the favoured language in the US for building artificial intelligence applications and a requirement for US Department of Defence projects in artificial intelligence. Such projects figure heavily in the computer part of the Strategic Defence Initiative research effort by the US military.

IBM also put its first artificial intelligence products on to the market last summer. Its commitment to new directions, by announcing products, often becomes a reference point in the future. Its move into the business computer market in the early 1980s with the announcement of the IBM 360, its announcement of an expert systems designed for its important mainframe customers.

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These applications are relatively easy to build because in every case there is a strong body of formal knowledge. So the rules needed to define the "expertise" were well-established. Examples of expert systems in use in commerce, where the knowledge needed to build a system is not so well-defined, are still rare, however. Perhaps the most significant recent development has been the inclusion of artificial intelligence techniques in popular software products. Ansa Software's Paradox database and the Q and A database from Symantec are two products aimed at the personal computer software market which have adopted this approach.

These two products, both developed in the US, have used artificial intelligence ideas to help make them easier to use. Symantec, for example, has built a "natural" language front-end to its database product.

The large number of personal computers now in use promises to be a strong market for these products. It is also the area where people are likely to get their first glimpse of expert systems in practice.

Philip Manchester
The author is editor of Fin-tech Software Markets.

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SOFTWARE PACKAGES 3

Market growth in Western Europe

● The packaged software sector by software type, figures in £m

Software type	1985	Average annual growth %	1986	Average annual growth %	1987
System/Utilities	1,781	28	2,297	28	2,977
Application tools	1,514	25	1,782	25	2,223
Application solutions	1,979	24	2,466	24	3,077
TOTAL	5,274	26	7,545	26	10,277

Source: IDC

Prototyping tools tend to be large and sophisticated programs which make it possible to customise packages for the most demanding of users and also maintain a degree of flexibility after installation.

Way to cut short the paper chase

IN LATE 1981 a previously unknown company called DI-AI arrived on the scene with a microcomputer program called "The Last One," or TLO.

The company claimed that it was the last program one would ever need to buy, a claim the computer industry and press promptly scorned.

TLO has all but faded into obscurity now but it had a promising future at the time as an application generator of Basic programs. Users could easily set up files and screen forms on their micro and run complete little business systems.

Had DI-AI been a bit more modest in its claim, some of the credible stories it had to tell might have been listened to. One plausible story was about a large company which was using TLO as a prototyping system to show on a micro-computer what the system might eventually look like in practice on a mainframe computer system.

If end-users were not happy about what they saw, data-processing staff could go away and make the necessary modifications before committing the time and expense of developing full-blown mainframe system.

Prototyping is now much more sophisticated but nobody is quite certain what it means. In engineering terms a prototype of a motor car, for example, is a vehicle put together with non-standard parts before the go-ahead to build it as a production model is given.

Some car prototypes are no more than beautiful but impractical artistic dreams which never go into production, while others are real engineering ugly ducklings which may end up as successful production cars that make more economic sense.

Similarly with computer systems if a programmer insists on lots of graphics, tables and icons, generators and shapers little interest in third normal forms or query processing. It may be time to say him or her of move him or her to the marketing department.

The final objective of prototyping is to build a permanent application, and even though the nature of that application may be constantly changing it should be easy to maintain and update.

More sophisticated

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Working system

The attraction of prototyping is that it does away with the old-fashioned and laborious business of drawing up paper specifications with all the misunderstandings which can result, and it allows DP staff to get down to developing a working system without delay.

If the system does not do what the user wants the programmer makes the necessary modifications again and again

A PROGRAMMER'S definition of a user might be: "someone who never knows what he wants until he's got something and then wants something different." A user's definition of a programmer might equally be: "Someone to whom you explain in great detail exactly what you want and who then goes away and comes back months later with something totally different."

It is the things people don't tell you which first often turn out to be important. The gap between the user and the provider of software is something which is always closing. Prototyping is a way of closing the gap in the process, because it makes it possible to present things with a "right up" of an application and the way it works before anyone commits time or money to the project.

DP departments were often accused of being insular, and arrogantly so, about the community in which a programmer needs to break down a user's problem such as adjusting a report to show sales per product per area instead of lumping everything together.

In the days when every line of Cobol or Basic code had to be written from scratch, it might take several hours to set up a prompt somewhere on the screen for data entry, accept the keyboard entry and validate it against the prescribed data definition.

A prototyping tool will do such work automatically once the data is defined, allowing a programmer to move prompts around the screen at will.

There is a new breed of "information resources manager" whose brief is much larger than running the payroll, their reaction to users' needs is the crucial test. An important part of the DP activity is the new wave of applications generators and so-called "fourth generation" languages.

These prototyping tools are advanced programming aids which automate some of the more tedious tasks associated with programming. Every programmer has individual tricks and styles, but a lot of software production is repetitive and relatively unskilled. The really skilled part of the job is the analysis and planning, "let's do this, looking, testing and debugging that takes time."

Prototyping tools speed up the execution of a program so that users can see something on the screen and judge it for themselves before things have gone too far. They involve little, if any, coding effort, though some "hand-typed" code sometimes has to be added when a programmer can't cope with a complex function.

For the first time since pack-

ages became the only economic choice for the majority of users, they offer the possibility of supplying customised software to the customer's own specification, at the same price and with the availability of a package.

"The screen" is what most people think about first. In fact it is a reflection of a much more crucial process: the definition of data. Nearly every applications generator deals with the fundamental task of setting up a file, and defining the general "shape" of data.

First, someone who knows a lot about the application must work out exactly what data items (often called "fields" in programming) are needed, and decide such details as how much space to leave for each item, how many, the maximum length of customer names, and how to structure product codes.

These are the individual elements into which a programmer needs to break down a user's problem such as adjusting a report to show sales per product per area instead of lumping everything together.

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Prototyping

Getting it right before deciding

Suppliers in Western Europe

● Packaged software market by suppliers and by processor size class, with values in £m

Supplier	1985	1986	Average annual growth %
Single-user:			
Single-user	322	1,222	30
Multi-user	2,422	10,122	27
Sub total	2,744	11,344	27
System houses:			
Single-user	110	651	34
Multi-user	726	2,941	28
Sub total	836	3,592	27
Independent vendors:			
Single-user	385	2,222	24
Multi-user	1,179	6,272	32
Sub total	1,564	8,494	32
TOTAL	5,234	24,117	29

Source: IDC

of installing a piece of software, and possibly from old systems and databases on to the new. Some of the most thoroughly engineered prototyping tools for the large-machine environment (such as Cimco's Mantis) take this into account, and allow users to access "old" data structures as well as setting up new ones.

Others go further in producing applications which will travel from one system to another. Usually these work with a specific environment such as the Unix or Pick operating system, or on a proprietary database. Examples include Bob's Today, and Software Express's Appgen, both on Unix and Aston Technology's System Builder running on the Pick database environment.

Pro Computer Sciences of Cambridge has an adaptable language, Pro IV, which works on a great variety of machines with different operating systems. Over the 10 years of Pro IV's evolution, the company has developed some stringent rules about what does, and does not, qualify as a fully-fledged "fourth generation language."

"4GL" is an ill-defined but popular term for high-level fast-development tools aimed at improving programmers' productivity, now used by suppliers to describe almost any new product.

PCS spits out anything which does not increase programmer productivity tenfold. It does not count products which are simply a set of individual "go-faster" programming tools cobbled together, nor those

which only do elementary tasks (such as setting up data-entry screens and reports) without dealing with complex code tasks. The company also discounts anything which runs only a PC, since to be effective with a mainframe there must be access to a fully-fledged database.

One of the main principles espoused by Pro IV (and most good prototyping tools) is the central data dictionary. This means that a set of applications can be "integrated," passing information between one another. In the best tools (including Pro IV, the Cortex's Applications Factory) it also cases maintenance and the inevitable alterations and updates, because a change made to one data definition should automatically reflect throughout the system wherever the field is used.

For example, if a field length is changed, the screen prompt for that field are adjusted too. Any product which needs such changes to be made explicitly, or which needs to rebuild the database or recompile the code for a change, falls by that standard. Other limitations are the use of a secondary database into which all data has to be entered.

Other charges often made against such languages are that they are inefficient in the code they produce, and sometimes need more hardware. Some prototyping tools have a compilation facility, which means that the users can play around with the design until they are satisfied, and only then compile the code, which performs faster as a result.

Often there are specialised demands which simply cannot be automated. The more flexible generators allow the addition of "hand-written" code, and can also interface with independent applications.

A serious criticism of prototyping tools is that they simply allow programmers to produce a greater quantity of shoddy programs at high speed. Few prototyping tools include the vital "flowcharting" stage of logic and data planning among their design tools. ICL's Quick-build and Cortex's Applications Factory are two shining exceptions, but sadly they are limited to specific ICL and DEC machines. Arthur Young has just introduced James Martin's information Engineering Workbench, which does a similar job in the IBM environment.

The quality of the applications produced with a prototyping tool is crucial. Anyone who has brought software to market knows that the actual development of the logic and code is a fraction of what makes up the product. What is the point of an application produced to customised requirements in rapid time if no-one understands how to use it?

The end-user has to be assured of an easy-to-use interface (usually a menu), explicit error messages, and all the usual cushioning that would come with a package. Documentation can be a stumbling block in the proper finishing of a "generated" application.

Well-engineered products provide facilities for writing on-line help for generated applications, and generate hard-copy documentation as well. These are rare: one such is Aston Technology's System Builder which works on machines running the Pick database environment, which also takes the portability factor seriously enough to provide the means to translate screen prompts, on-line help, and documentation into different languages.

Prototyping tools tend to be large and sophisticated programs and can be heavy on machine resources. But they do make the most of the human resources available and they have made it possible to customise packages for the fustiest of users and maintain a degree of flexibility after installation.

After the first wave of enthusiasm for standalone microcomputer tools such as dBase II, software houses have been surprisingly hesitant about the next, far more powerful generation of prototyping tools, perhaps because few are capable of producing sophisticated, heavy-duty, high-quality applications.

The main moves are coming from large data-processing departments and companies whose DP needs just never stand still due to expansion, mergers, and the like. They see prototyping as a way out of the applications backlog. Just as important, it involves end-users at every stage of development and ensures that what they get is what they asked for; and, if things have changed in the past few days, the software changes too.

Claire Gooding

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SOFTWARE PACKAGES 4

Desk-top publishing

Laser printer the key to high speeds

DEVELOPMENTS have come a long way in office communications since the days of messy crank-handled spirit duplicators with wax sheets that would keep tearing apart in the middle of a print-run. As the photocopier has become an essential item of office equipment since its widespread adoption in the 1980s, so will the desk-top publishing system of the late 1980s. Apart from the computer used for the origination of documents on a high-resolution graphics screen, the most important element of a desk-top publishing system is the laser printer. Whereas the printing mechanism of the photocopier is tightly coupled to its optical imaging system, a laser printer's mechanism is digitally-driven. The earlier laser printers were huge machines, from Xerox's IBM and used in large computer-room environments to replace slower and noisier "impact" printers, which had more or less reached their limit at about 10,000 lines per minute. IBM's 3800 laser printer operates noiselessly at 18,000 lines a minute; while Xerox's 9700 comfortably exceeds this, and has the added advantage of not requiring special computer stationery—reams of standard A4 or A3 sheets of paper may be used. This makes it ideal for "personalists" and small shops. Standard text was previously typed on a blank sheet of paper and photocopied on to letterheads, separately from its text, such as names, addresses and salutations which would be typed on afterwards. Mailshots in smaller organisations can only provide a limited market for the smaller and cheaper desk-top laser printers. Arguably, it would be cheaper to buy them on a large laser printer from a computer bureau. However, personal computers with suitable graphics capabilities can stretch the facilities of a desk-top laser considerably. The Xerox Star was one of the first of the sophisticated, but expensive, corporate electronic publishing and documentation systems to make use of smaller laser printers. The Apple Macintosh, well known as a standard PC for its Xerox star-like graphics icons and its hand-held "mouse" device, which allows crude drawings to be generated on the screen, now carries some interesting software for desk-top publishing. This is one of the few areas where Apple has so far run rings round IBM, because of its superior graphics. Although Digital Research's Gem software products offer similar graphics icons and mouse facilities on the IBM PC to those available on the Macintosh, they cannot match the Macintosh for resolution. But now that IBM has launched its revolutionary PC RT, the going is bound to get very tough for Apple. For, though the latter offers better graphics, they are also slow to generate. Graphics places quite a heavy load on a computer's processor. RT stands for Risc (Reduced Instruction Set Computer) Technology, a new and simplified type of computer processor architecture which breaks the mould of the complex architectures developed to cope with commercial data processing requirements. It allows the computer to run faster by utilising only the most commonly used instruction "primitives", making it ideal for scientific, graphics and computer-aided design applications in general, and desk-top publishing in particular. Nevertheless, Apple is determined to hang on to this market. The company is running advertisements for a complete desk-top publishing system weighing in at £7,500, including an Apple Macintosh PC, a LaserWriter desk-top printer and software. The software includes Apple's proprietary MacPaint and MacDraw packages, a sophisticated word processor from Microsoft called Word, and PageMaker, from the Aldus Corporation, which provides page layout facilities for up to 16 pages at a maximum of 10 columns per page. As a software package on its own, PageMaker costs around £450. Also new on the market is a software package called MacPublisher II, offering some layout capabilities at a quarter the price of PageMaker. Other office equipment suppliers, such as Gestetner, also base their desk-top publishing systems on the Apple Macintosh.



An entry-level electronic publishing system from Xerox automates the production of manuals, directories, catalogues and similar business publications.

Linotype's Series 100 is a desk-top publishing system based on Apple Macs, with several software packages developed specifically for publishing. As one new technology leaps another, new bits of software are required to keep up. For example, separate software to that required to drive a computer's screen and keyboard may be required for enhanced control of a laser printer's mechanism in the form of a page description command language. Dataproducts, a traditional manufacturer of "impact" computer printers, has launched a desk-top publishing system in conjunction with Apple distributor McQueen Systems, also based on an Apple Macintosh computer and PageMaker. The system includes the Data-products Laser printer which supports PostScript, a page description command language produced by Adobe Systems, of Palo Alto, California. PostScript is a device independent command language which is resident in the controller of the laser printer. It acts as the interface which allows various workstations, laser printers and typesetters to be used interchangeably. The LZR-2685 is a full text-and-graphics laser printer supporting paper sizes up to A3, allowing the user to produce a four-page A4 newsletter or printer's log, which can be scaled to any size and placed in any orientation on the page. A number of additional fonts, such as the house style for a company name, can be downloaded. The use of bit-mapped graphics or a mouse to create images such as logos and icons, in order to exploit the enhanced control available on laser printers, can be laborious and time-consuming. The next stage is the use of a scanner—almost a full turning of the circle back to the optical method of reproducing images as used by photocopiers, such as that used in the Kodak Ektronic Electronic Publishing System (Keeps). An added advantage of a scanner is that photographs may be used too. The Data-products Scan 300, a desk-top optical scanner from Abatone which digitises drawings, graphics and photos directly into a Macintosh. It is a 300-dots-to-the-inch scanner which matches the LZR-2685 output exactly. It automatically converts continuous tone photographs into half-tones. So, although at the moment Apple is way ahead of IBM in desk-top publishing, all is not lost for IBM users. Itek, for example, offers an IBM PC-based personal typesetting workstation, the Itek PTV. British-developed software package with menus, prompts, and the almost mandatory WYSIWYG (What You See Is What You Get) facility for modern text-processing systems. Its features include a 30,000-word dictionary (for hyphenation and spelling check), and more than 100 type-faces on-line (each with 256 kerning pairs for automatically adjusted spacing). Compugraphic's Scanner 1000 operates with an IBM-compatible personal computer. A logo, or other line work is scanned and the data fed directly into the micro and on to the screen. The operator edits and scales the logo before it is transmitted to the Compugraphic-digitised typesetter and stored on a standard floppy disk which can hold up to 118 different logos. It is capable of scanning images from a maximum of 62 in x 14 in down to a minimum of 22 in x 31 in, and will read an A4 page in approximately five seconds. It works to a resolution of 480 x 480 dots per inch (higher than Scan 300) and has automatic light exposure to compensate for varying density originals.

Boris Sedacca

Off-the-shelf or specially written software

Choosing ready-mades that fit

COMPUTER SOFTWARE is inherently expensive to develop. Its design and testing are labour-intensive and require intellectual skills of a high order. Those who possess these abilities are scarce and, naturally, are able to demand commensurate rewards. It is for reasons such as this that in the major areas of word-processing, spreadsheets and graphics that standard off-the-shelf packages are most frequently used as they can provide an adequate solution without the high costs that would arise from having software specially written. In many cases, in fact, it would be pointless having custom software. One "just" needs to choose the most appropriate package from the thousands on the market and one can obtain 80 per cent of what is needed for well under 20 per cent of the cost of a custom package. The number of IBM personal computer had two effects: it made the micro a respectable business tool; and it provided the demand for software which would be run. For the winners, such as Wordstar, which is even now the most widely sold (and pirated) package, the sales run into many millions of dollars with commensurate returns. Market research by the software companies is therefore aimed at determining which added features will have most sales appeal. The outcome is a large number of competing "full-featured" packages which, subject to their being reliable and "bug-free", provide a vast amount of functionality at a relatively low price. But the price to be paid for all this functionality is its complexity. Hence, it takes an appreciable amount of time and effort to learn to use such packages to best advantage. Indeed, for many users they tend to be an overkill. At the same time they are often so big that they tend to be slow and lumbering in comparison with their older, albeit simpler, brethren on previous generation machines. This factor will become less important in future as new generation machines, such as the IBM AT and its clones, are more powerful. For Bill Gates, president of Microsoft, believes that the correct approach is to develop software to take advantage of these machines. A measure of the problem facing users can be seen in a recent comparison between different versions of a well-established database. A task which took 44 minutes on an elderly 8-bit micro took 62 minutes on an IBM-type machine. So not only did the user obtain no benefit he would actually lose if he changed machine. Only when the same job was run on a more powerful and more expensive AT-type machine was there a noticeable improvement. The task then took 30 minutes to perform. The above may appear tough to users of the slower machines but it can be argued that as the hardware costs are falling it will not be long before most users will move on to these advanced machines and so be able to take advantage of the added power and speed as it becomes available. Obviously it is impossible to cover even one of the areas of standard packages in any detail. But by looking at general principles it is possible to gain an appreciation of the difficulties facing a prospective purchaser. I will consider word-processing (WP) because the manipulations of text is a task with which everyone is familiar and I, as a journalist, have an appreciable amount of direct experience of it. There are two totally different WP requirements: one is to generate the words (the writing function); the other is to prepare attractive-looking printed documents (the typist's function). The two requirements often merge when the author "formats" the document so that the layout on the final printed page will look attractive and be easy to read. Sometimes the author needs to carry out a brainstorming session and so has to make an "outline" of his ideas as he develops the skeleton. Then, when the outline is fully developed, he can put flesh on the bones and write the required document. The need of many executives is often far simpler in that regular reports follow the same pattern each month and each report, therefore follows precedent without the need for outlining. Writing is a most personal, almost idiosyncratic, process. So, choosing from the large number of packages on the market is a difficult task—even if one had the time to carry out extensive tests. As an aid, many of the reputable vendors offer "samplers" which allow one to get some idea of the performance of a package. To cite some of the packages: Microsoft's Word is claimed to be one of the most versatile on the market and is aimed at the executive. It has good integral tutorial and "help" facilities so that a user is able to learn how to use added features. I like it but, as an experienced typist, I find it a little slow on my own machine. While this is a high-performance stand-alone WP package, Quill is part of the modular integrated package Exchange from British company Reson. Other modules within this package, which can be used separately or fused together as an integrated whole, are database, business graphics and spreadsheet. It is claimed to be easy to use and to provide a convenient means of transferring data from one module to another. The writing of software is not necessarily the prerogative of the big battalions. Bonnie Blue was written by Ronald Greenberg, a computer professional working at New York hospital. This is a low-cost and yet fairly fast package which is both versatile and not too difficult to use. Marketed by London-based Paperlog at just under £100 it will find favour with the users of low-cost clones costing around £1,000. Similarly, Dr Chris Currie, of the University of London Institute of Historical Research, has written a program to permit the reading of text on a VDU with the same sort of convenience that one would expect from a book. It uses a similar approach and features numbered screens just like numbered pages. While Bonnie Blue has been enhanced and updated whenever possible to meet users' needs, Dr Currie's program was written to meet a particular need in his department which, he now recognises, is a far from unique problem. In all cases, however, one is dealing with intellectual property, and thus the copyright, of the software writers. Ideally, a prospective user would like to use a package extensively prior to purchase and yet, quite understandably, the vendors do not want to lose revenues from the proliferation of pirate copies. A large amount of software is "protected" to prevent unauthorised copies being made. Increasingly, however, a number of major vendors are no longer doing this because of the serious inconvenience users (especially in the event of machine failure) can also add to the complexity of the software itself. Software piracy is a problem that will continue to tax the minds of the vendors for some time to come even though most customer companies are coming to recognise that it is unlawful to make unauthorised copies of a program to run on a number of machines. This is probably more serious than the other problems of the user who makes a copy for use on a similar machine at home or of copies being passed around as they are less likely to constitute a major loss of revenue, while the problem of the multiple use is being addressed by bulk discounts and site licences. After all, what serious business user can afford to be without full documentation or vendor support? The ability to evaluate software fully before purchase is provided by the concept of "user-supported" software which is becoming common in the US. These programs can be freely copied and are thus widely distributed. They frequently incorporate a message suggesting that the user should send the author a donation of \$10 to \$50. Sometimes this covers the supply of the manual and registration for updates. A user who is satisfied with a program will probably not begrudge the relatively small sums of money involved, but this route for software procurement will not fit into a corporate strategy. Software for micros is therefore a complex subject. The direct monetary costs of packages are likely to be smaller in real terms than the cost to a business of time wasted in a catastrophic decision if made. So, an investment of £5 for "Selecting business software" the latest addition to the Technology Made Easy series from Computer Television, could well enable the prospective buyer to start appreciating the questions that need to be addressed. Adrian Morant

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Integrated systems

Putting it all together

THE GROWTH of Lotus Development and its successful 1-2-3 software package is rare in the computer industry. Lotus's innovative approach — "integrating" features from several different programs in one piece of software — appeals to personal computer users.

Lotus 1-2-3 also started a trend for packages that combined all of the features that business and professional computer users might want in a single product. Lotus 1-2-3 brought together a Visicalc-type spreadsheet, a simple database and graphics. Later products, such as Lotus's own Symphony package, included word-processing, communications and facilities to accept data from other programs.

Early last year it looked as though sales of these totally-integrated packages would outstrip sales of single-feature packages. Lotus itself admits that it expected the main market for Symphony would be existing 1-2-3 users who wanted to extend their software.

Lotus even offered a discount to existing 1-2-3 users to encourage them to move to Symphony. Similarly, Ashton-Tate, Lotus's main rival in the personal computer software market, expected that its Framework integrated package would appeal to its existing users.

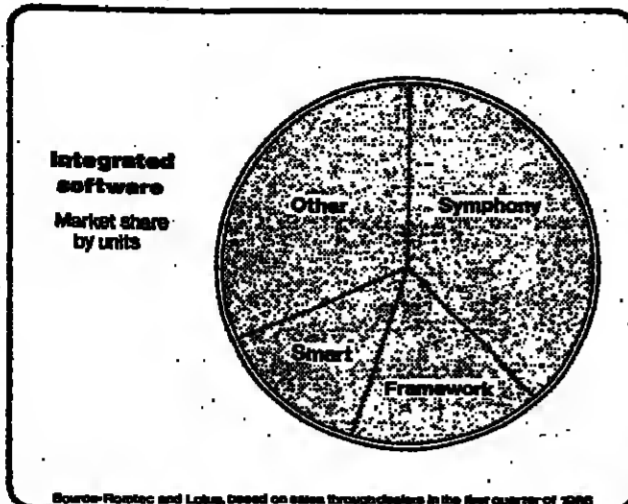
Attempting to identify trends

Ashton-Tate's dBase range is the market leader in database software as Lotus 1-2-3 is the leader in the integrated spreadsheet market. Both companies made sure that their new products were compatible with their earlier ones. Symphony can use spreadsheets generated by 1-2-3 and Framework can use databases generated dBase.

Lotus saw its spreadsheet users moving into word-processing and databases. Ashton-Tate saw its database users moving into word-processing and spreadsheets.

They were both wrong. Despite the discounts, the upward compatibility and the apparent logic of moving to products which offered more features, Lotus 1-2-3 users have not moved over to Symphony in great numbers. Neither have dBase users moved to Framework.

This does not mean that the products have failed. Far from it. Mr Floyd Bradley, managing director of Lotus UK, estimates that 1985 revenues from sales of Symphony were between \$20m and \$25m. The Symphony were sold by a separate company that company would be the fourth largest software com-



Source: Romtec and Lotus, based on sales throughout the first quarter of 1986

pany in the business," he says.

Similarly, Ashton-Tate says it has sold 100,000 copies of Framework worldwide since its launch two years ago. Mr Paul Sloan, Ashton-Tate's UK marketing director, echoes Lotus's admission that it expected Framework to replace dBase.

"We have learnt a valuable lesson because we thought that Framework would replace existing packages. What has happened is that we have found an entirely new market," says Mr Sloan.

According to figures compiled from dealer sales in the UK by Romtec, a market research company, sales of integrated software packages accounted for 11 per cent of all personal computer software in the first three months of this year.



Financial analysts using a Xerox 6085 professional computer to retrieve data from a mainframe computer in one version of an integrated financial management system for work-groups and departments.

dBase, together with the growth of a separate market for the two companies' integrated products, has led both concerns to re-evaluate their development strategies.

"Our development people now see two main product areas. We have divided our product into character-based products like 1-2-3 and Symphony and graphics-based products like Jazz, our integrated package for the Apple Macintosh," says Mr Bradley.

"We will continue to develop 1-2-3 and Symphony as character-based products and we want to evolve 1-2-3 gradually to include more features. But we see 1-2-3 and Symphony as separate product lines."

Lotus has not given up its goal of bringing 1-2-3 users across to Symphony. It has already made changes to Symphony to make it more appealing to 1-2-3 users. The original version of Symphony could use Lotus 1-2-3 spreadsheets but not using Symphony.

The latest version of Symphony has changed that and Mr Bradley thinks this will increase Symphony sales. "The problem was that Symphony users in a company could be isolated from 1-2-3 users. Now that is not the case," he says.

Development of wider portfolios

Ashton-Tate also sees its dBase range and Framework as separate product lines. Mr Sloan sees no conflict in this. "We will be bringing the two products together in various ways. But I believe that the leading software publishers will continue to develop wide portfolios of products and some products will tend to overlap," he says.

"There is no doubt that if your needs can be met with a single integrated package then it is the best approach. The common command structure in Framework and the ability to move data from a spreadsheet to a wordprocessor to a database make it a natural choice."

"If you need to use stronger products, like a secretary using a full wordprocessor, then you can still integrate using something like Microsoft Windows. But it will never be as clean as Framework."

Mr Bradley of Lotus agrees with the core of Mr Sloan's argument and says: "Symphony is a product for middle management with a light need for word-processing, a light need for database and heavy need for spreadsheets. Yes, it is more complex than 1-2-3, but there is a lot more in it."

Philip Manchester

Accounting applications

Need for multi-user systems

ACCOUNTING systems are not the most glamorous of computer applications, but they are the backbone of the data-processing business and have become an important microcomputer application.

The arrival of powerful and inexpensive microcomputers is causing a quiet revolution in the staid world of company accounting. Microcomputers such as IBM's AT personal computer are powerful enough to challenge much more expensive minicomputers.

Moreover, the increase in computer power and the decrease in cost has meant that electronic accounting is a practical and economic proposition for smaller companies.

The UK researcher, Romtec, estimates that the UK market for personal computer-based accounting software alone was worth £40m in 1984 and is set to grow to £104m by next year. Over the past few years the trend has been towards "packaged" accounting systems. Accounting software for large mainframe computer users is provided in package form by US-based companies such as Management Science of America and McCormack and Dodge.

At the other extreme, small UK developers have produced accounting packages for every type of hardware from the Sinclair Spectrum upwards.

Package accounting systems start with the three standard ledgers, sales, purchase and nominal. The large and more expensive computer accounting systems also include invoicing, stock control and order processing. In between there are any number of variations to meet the diverse needs of different businesses.

Accounting systems are also a key area for "bespoke" software developers. These systems, either developed by specialist software companies or by the users themselves, are designed to a customer's specification. Unlike general applications

such as word-processing and spreadsheet systems, accounting is influenced by factors outside the technology.

An accounting package developed in the US, for example, does not provide for UK legislation on accounting procedures. An accounting package developed for a manufacturing company is inappropriate for a service company. The result is that a thriving industry has grown around developing bespoke accounting systems.

Extending into larger markets

Despite the continued demand for bespoke systems, however, the main thrust in accounting software is towards packages, and the big issue for developers from both ends of the business is to extend their packages to larger markets. The personal computer package suppliers are trying to move "up-market" and the minicomputer software suppliers are trying to move "down-market."

Even a small company's accounting systems are administered by a group of people rather than one individual. This means that a personal computer on its own is limited in its effectiveness. Accounting data need to be shared by several people at once.

Companies which started with small personal computer-based accounting systems are finding that they need to expand. They need to add more terminals to their systems while retaining secure data files.

At the same time larger companies are finding that accounting systems built for personal computers are more "friendly" and more acceptable to their employees than systems developed on mainframes. The wide acceptance of personal computers in business has raised people's expectations of systems. Mainframe and large mini-

computer systems are set in an environment where technical knowledge and skills are available to help users. But by personal computing standards the systems are difficult to use.

The result has been growth in the middle ground between microcomputers and mainframes in systems that can support more than one user and provide a smooth interface for the user. It is this area, usually known as multi-user systems, that is proving attractive to accounting software developers from both ends of the market.

Companies such as Pegasus and Anagram, with a background in personal computing software have adapted their personal computer systems and have started to include multi-user features. Companies such as Systems Union, Tetraplan and SMB, all with backgrounds in larger computer systems, have brought their packages to the same environment.

But it is not simply a matter of taking an existing package, making a few alterations and packaging it up as a "multi-user" product. Multi-user systems require much more discipline than personal computer systems. They also need technical features like record-locking to prevent more than one person changing a piece of data at once.

Both personal computer-oriented and mainframe mini-oriented companies face problems in meeting the demands of the emerging multi-user accounting software market.

"It is fortunate for us that we moved into the middle ground early on," says Geoff Abbott of SMB Software, a subsidiary of the giant Thorn EMI Computer Software group. "Larger companies coming from a data-processing background are unfamiliar with user friendly interfaces and personal computer software companies are not used to the demands of

a multi-user environment. They have also written their code in the Basic language, which is not suited to multi-user computing."

"The only area where we were light was documentation. Before Thorn EMI took over we did not have the resources to produce the sort of high-quality documentation the market demands. Now we do."

But businesses wanting to computerize their accounts using a multi-user system are faced with more problems than choosing the right software supplier. They also face unresolved technology issues such as what type of multi-user hardware to choose.

"There are two routes for users to take," says Sean Dowling, managing director of Tetra, another company that started on minicomputers. "If they have an existing investment in personal computers they will probably opt for a system which networks a number of personal computers like PC Networks or one of the proprietary offerings from Novell or SCUM."

"If they are starting from scratch, or coming down from larger systems, they will most likely go for a single processor servicing a number of terminals and running under an operating system like Unix."

The first thing that customers should remember, says Mr Dowling, is that they want a business system and should concern themselves with operating system and technology issues no more than is necessary. He claims that Tetra's accounting packages work equally well on networked personal computer systems and "true" multi-user systems. Other software companies can offer the same flexibility.

Philip Manchester

The author of this article is consulting editor of *FmTech 5, Software Markets*.

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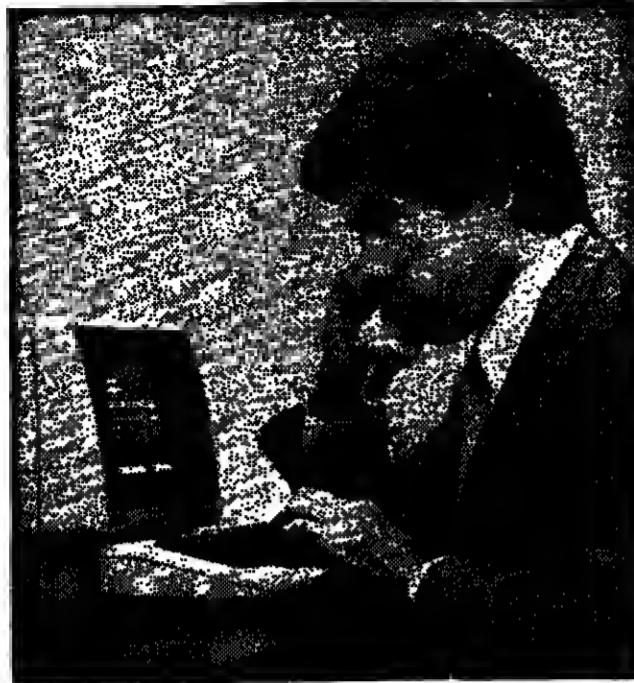
SOFTWARE PACKAGES 6

VI

Documentation

Need for clear instructions

THE FINEST printed documentation is that which you don't need—because the software is self-explanatory. Unfortunately, fine documentation is rare and for most products it is still necessary. The demonstrations appear wonderfully easy, but the moment of truth comes when the user is facing the machine alone, with only the user's guide for help. Software suppliers in the UK have gradually improved their documentation. US concerns were more aware of the competition and readier to spend money on aspects which UK software suppliers thought of as luxuries or no more than expensive frilleries. But the documentation of a package is fundamental to its success. It doesn't matter how well-programmed a package is, if it isn't easy to use it will not succeed. Mitch Raport, developer of the best-selling Lotus 1-2-3 spreadsheet package, never claimed to be a star programmer. When he launched Lotus, Raport's sales pitch centred on how easy it was to use, or the design of its now much-copied user interface, and the fact that it did the things that people actually wanted. It says a lot for Raport's shrewdness that the interface was built in right from the start. Too often the documentation and the user interface are added in as afterthoughts to a massive development effort. A well-designed piece of software should include the documentation and interface. Guidelines doesn't always come from a manual. Online help, the sort you can summon with one keystroke to display an explanation on the screen, is still widely seen as something of a gimmick. It is rarely practical as the sole source of help, partly because it is so slow to access and read screen by screen. But it is invaluable to a new user who needs a quick reference without wading through a manual. The most practical online help can be designed into the interface as "signposting." A system should ideally make it obvious to users exactly where they are, by means of a menu, icons, or any other route-pointers. Even more important, it must be obvious how to exit. "How do I get out of this?" is a common question. A thoughtfully designed package will not cause such a crisis because the method of moving between functions and exiting from them will be self-evident. Another good sign is consistency in the way that a package handles certain functions such as inserting, deleting or amending information. Ideally, one basic technique should apply throughout the package, so that having learnt one process you have a fair idea of how to tackle others. A hands-on demonstration may give you the most important clues on how easy-to-use a package may be. A demonstration disk will give no more than a "flavour." The manual, on the other hand, should give you the essence of a package, and you can take it home to read in bed. A lot of people rely on the documentation of a product to make a detailed assessment of its capabilities. How do you test? One of the positive signs of a package which will be easy to use is consistency. Methods of choosing tasks, exiting, or aborting should be uniform. The structure of the manual is as important as the structure of the software itself. This means getting things in the



Easy-to-follow documentation is vital for successful software application. Above: a manager checks delivery of electronic mail using special software for Hewlett-Packard's HP 3000 Computer network system

bulk can be a problem. There is also the hazard of not being able to find what you need.

One of the most common complaints against ICL's One Per Desk integrated office/telephone system was that it had so many books that users needed a guide to the guides. As a sampler for the computer it's a necessity. On its own, it does its own programming product — Quickbuild — ICL got it right, however. Not only is the documentation well-structured and crystal clear, the software itself is self-explanatory.

Programmers are the worst people to write guides because they rarely understand the level of skill (and particularly the lack of it) in their audience. It takes an expert to post out the proper order, cut out unnecessary repetition, and keep the levels distinct.

Luckily, there are more experts around than there used to be. Documentation houses such as Beddeley Associates of Cambridge, and TMS Computer Authors of Guildford have emerged to meet the need for clear User Guides. They are helped by the improvement in production methods, particularly word processing, electronic publishing, and, on the cost side, laser printers. Reprints and corrections can be virtually instantaneous.

The Institute of Scientific and Technical Communications has recognised computer guide authors as a special area which needs the precision of scientific and engineering manuals, but in a slightly less terse style. There are courses and conferences and several books on the subject for aspiring documenters.

Jean Hilder, managing director of TMS Computer Authors (clients include large banks and City firms who need tailored guides) deals with structure and audience first and then, two weeks later, sets you to writing. "The problem-solving areas are often the most useful," she said. "Often the examples in guides are too simplistic or don't make sense. First-time users should be given an easy task they can do in half an hour with the package, which gives a sense of achievement early in the game."

It is easier if the user's guides are divided into explicit sections for first-time and advanced users. Sometimes these come as separate guides, and sheets of software. Ms Hilder feels that US documentation often gives shallow, insufficient examples and tends to be too jolly. The British take their computers more seriously. "Professionals don't like to be talked down to. Sometimes manuals become too self-consciously 'friendly', condescending and patronising. The UK tends to be more formal, less free-and-easy. To copy the US style is wrong for the UK market."

The comment raises an important point at a time when portable software is becoming de rigueur. Software has to be portable not just across machines but across national boundaries. Some companies such as Thorn EMI have the resources to make their manuals multilingual, as with the SMB multi-currency business software. Translation is not cheap. One specialist agency, Lexitel, which has translated the guides to Access Technology's 20/20 spreadsheet into French and German, estimates the cost at an average £20 per page, without production.

For most products, getting it right in English is still a long way away. Meanwhile, book-shops will do a good trade in "to go" guides which tell you everything your documentation should have told you—but did not.

Claire Gooding

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Productivity software, including word processing and spreadsheet programs, accounted for \$2bn worth of sales in the US market last year. Sales could reach \$4.5bn in this sector by 1990

US demand for higher performance

Business market grows apace

WHILE THE US business and personal computer software market continues to grow at a steady pace the prospects for new entrants are dim, according to US industry analysts. The three largest software publishers — Lotus Development, Ashton Tate and Microsoft — together account for 60 per cent of sales, while another 6,000 or so concerns compete for the remainder of the business. The US market for "business" software — accounting and administrative applications — will grow to \$1.5bn this year, up from \$1.4bn last year, according to Datquest, the US market research firm. The researchers project a 13.5 per cent annual growth, bringing this sector of the software market to \$2.7bn by 1990. "Productivity" software, including word-processing and spreadsheet programs, accounted for an additional \$2bn in sales last year and are expected to top \$2.4bn this year. Datquest projects sales of \$4.5bn in this high-growth sector by 1990. Despite its high growth projections, Datquest does not see many opportunities for newcomers or specialist products in the retail channel. According to US computer retailers, the time and considerable skills needed to make software sales are not justified by

the thin profits that they earn. The downward trend of hardware prices has forced the discounting of software prices as customers balk at spending more than about 30 per cent of their total investment in a computer on the software. Software stores, once hailed as an important new distribution opportunity for program publishers, have failed to live up to expectations. Most have closed down or transformed their businesses into hardware and software shops. Direct sales, through mail order or by a company's own sales force, have become the dominant selling method in the business software field, where the bulk of products are purchased by large companies. To reach small businesses, software concerns are trying new approaches such as selling programs designed to meet the needs of vertical sectors of the market through professional and trade groups. Accounting firms have also become a significant factor in the distribution of software. The growing problems of software distribution were recently emphasised by the financial woes of First Software Corporation, the second largest software distributor in the US, which filed for protection under US bankruptcy laws in April. First Software's bankruptcy is expected to cause a rash of

bad debt charges against the earnings of software publishers. Already, Micropro International, publisher of the "Wordstar" word-processing program, has said that it is owed \$1.4m and Software Publishing Corporation has said that it expects to lose \$500,000 through the distributors' bankruptcy. Slim profit margins were First Software's downfall, according to industry experts. Some expect to see software prices increase as distributors become less aggressive in software price discounting. But others believe that software prices must fall further with software publishers taking a profit margin cut so as to satisfy demands for inexpensive software to run on cheap computers. In the business sector, however, there is also a growing demand for higher performance software. Software Publishing Corporation, which makes the popular PFS line of relatively simple filing, report-writing and word-processing programs, has suffered a significant drop in sales and earnings over the past six months and expects to report a \$1.5m loss in the third quarter of this year because of the shift in the market toward more advanced programs and the increasing focus of retail sellers on the corporate market.

Louise Kehoe

Bureau's success with payroll systems

Profile: In 22 years Peterborough Data Processing Services raised its turnover world-wide, based largely on software rentals, from £2,000 a year to £7.5m.

IN 1963, Mr Ian Evans-Gordon and his wife Gill set up a computer bureau in Peterborough with the help of a part-time, part-time partner using spare computer capacity at Perkins and Hopwood. Turnover that first year was under £2,000. By April this year, the audited accounts of Peterborough Data Processing Services for 1985 showed a turnover of £7.5m worldwide, up 14 per cent over the previous year, and 17 per cent on sales in Great Britain. The major part, about £6.75m, came from its UK operations. A large proportion of turnover is based on software rentals, which provides some security against market fluctuations in the fortunes of other companies in the software market. The company made its name as the UK's market leader for large and medium-sized mainframe computer-based payroll systems with its Unipay package. As software products go, a payroll sits at the non-glamorous end of the software market, a staple but highly profitable product used by virtually all large, medium and small companies. But public sector customer which brought the company widespread and unwelcome publicity. Reports were carried of weekly-paid staff at the London Borough of Brent threatening industrial action in April when a backlog of wages payments were lost due to payroll errors. The Borough's 7,000 weekly paid staff were getting reduced pay packets for some weeks since Brent started using the Peterborough Software's Unipay, but the company took a major proportion of the blame. Brent's director of finance, Mr Odria Steed, is keen to point out that bugs in the software, brought about by the customization of Unipay when it was first installed, only contributed two weeks to the problems. The rest of the problems were attributed to internal administrative problems at Brent and the way that departments handle their cheques. "The basic software was never in question, but historically, Brent has always had difficulties in processing its payroll at Bank Holiday periods, because the problem was not a 'factual' pay week by week, explains Mr Steed. "This is utterly impossible and what we have sought to do over Bank Holidays is to pay estimates in the weeks before and after, and then to pick up everything in the third week. "Those Bank Holiday weeks came rolling on very quickly after the two weeks in which there were software problems. The main problem is that we do not see time sheets through from the departments on time and that is a problem for Brent, not Peterborough Software. "I have to say that we have been using Peterborough Software for salaries staff such as officers and teachers for many years, and last year we put in their latest update without any problems. "Peterborough is not new to Brent and we have also installed Unipay. While this system is not 'live' yet, we have had no problems with entering data, and all is going according to plan and timescales. "It is only in the case of weekly wages where we are changing from a very old, in-house written system to a sophisticated online system to bring Brent's weekly wages payroll into the 90s from the 60s. This unfortunate event overshadowed another major milestone in the company's otherwise low-profile existence. In mid-April, the company was acquired by insurance brokers C. E. Heath for £8.5m. The company already had a close working relationship with

C. E. Heath, which also offers a computer bureau service based on Unipay to pension funds, since 1978. Mr Evans-Gordon remained as chairman and was joined by Michael Burton as deputy chairman. Mr Peter Presland, C. E. Heath's group finance director, also joined the board, and the Peterborough management team completing the board comprises Mr David Laking as group managing director, Mr Tony Bevan and Mr Sandy Scott. "Our acquisition will give us the capital and financial muscle necessary in a computer industry which grows over more competition, and dominated by large multinational companies," said Mr Laking.

In effect, the large software multinational always been around, but they are mainly US companies who regard the UK market as the cherry on top of the icing. What has counted in Peterborough's favour all along is the fact that it is a British company, so UK payroll legislation is its primary concern. But it is not the only British software house supplying payrolls, and a handful of others are also moderately successful in this market. They will be looking to hold on to their slice of the cake, if not to expand it.

Boris Sedacca

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FINANCIAL TIMES SURVEY

Hong Kong

香港

A picture has begun to emerge of what Hong Kong will look like under Chinese rule after 1997, pushing the issue of confidence to the front of people's minds. Despite trading uncertainties, and signs of a need for structural economic change, the impression remains of a dynamic economy.

Quest for stability

By David Dodwell
Hong Kong Correspondent

"WE DON'T expect Hong Kong people to like socialism," said one of China's most senior diplomats in Hong Kong, amiably sipping a glass of white wine. "All we hope is that they will be good Chinese."

Nine months ago such an assurance would have been greeted with widespread public scepticism. There will still be many sceptics today but there are signs that a growing number of people are willing to believe that Peking means what it says. It is an assurance that sits at the heart of Deng Xiaoping's reuniting formula of "one country, two systems" and without it the formula stands no real chance of being translated into reality.

The signs are that China is bending over backwards to accommodate Hong Kong views," comments Maria Tam, probably the nearest thing Hong Kong has to a true politician. There are signs too that Hong Kong people—always pragmatists—have begun to modify their political aspirations in response to signals from Peking.

The most ardent sceptics in the British territory would doubtless claim that Maria Tam has gone soft on China. Others would say she is reflecting a significant change in mood that has occurred in the British

territory over the past nine months—both in terms of Peking's willingness to listen and in terms of Hong Kong people's ability to adjust to what is possible.

It is far too early to suggest that Hong Kong people are sanguine about their future under Chinese rule after 1997. Too many are still seeking foreign passports for themselves or their children, and too many remain reluctant to invest in the territory, for such a claim to be made.

But an important source of encouragement has been evidence that Peking is willing to listen and that it genuinely has no preconceived ideas about how Hong Kong should be governed after 1997.

When Li Ping, a senior official in Peking's Hong Kong and Macao affairs office, visited Hong Kong last January with a group of 12 lawyers to learn what local people felt about a wide range of issues, he resisted fierce and persistent pressure to elaborate Peking's views.

His attitude irritated some local journalists, but after a month of work and more than 1,000 interviews there can be no doubt that Li Ping has been able to furnish Peking policymakers with a much clearer idea about the hopes and fears of Hong Kong people than they did last year.

The 28 Hong Kong members of the Basic Law Drafting Committee, the Peking-appointed body that has the task of drawing up

Hong Kong's post-1997 constitution, returned from Peking two months ago with first-hand experience of how Chinese officials were willing to modify responses to reasonable objections.

The fear that Peking had a formula ready to impose on an unwilling Hong Kong public has on this experience proved unfounded.

Even Martin Lee, QC, a member of both Hong Kong's Legislative Council and the Basic Law Drafting Committee, who has been an outspoken critic of British and Chinese officials alike, returned to Hong Kong uncharacteristically satisfied with the progress made.

In the Joint Liaison Group, the Sino-British body set up to oversee Hong Kong's transition to Chinese sovereignty, there are also signs that early suspicions are being eroded by a measure of tangible progress.

China's agreement to endorse Hong Kong's claim for independent membership of the General Agreement on Tariffs and Trade (GATT) is the most recent and notable example, involving real concessions from Peking on the scope of its sovereign control over the territory.

The political nadir came in November last year when an outbreak from Xu Jiatun, head of the New China News Agency in Hong Kong and Peking's most senior local official, about the pace and direction of political reform in the territory, provided evidence of serious



Looking east along Hong Kong Island's Eastern Corridor Causeway, there is growing belief in Deng Xiaoping's reuniting formula of "one country, two systems".

behind-the-scenes differences between Peking and London.

It emerged that Peking was upset by Britain's failure to check what it thought were extravagant and destabilising political changes being sought by the territory's aspiring politicians. Greatest fears were over calls from people like Maria Tam and Martin Lee for political parties, direct elections, the creation of ministerial posts and full-blooded democratic politics based on Western models.

Seven months later Peking's officials seem much more relaxed about the political changes occurring. They have had assurances from British ministers that Whitehall is striving towards political "convergence." They have also seen the territory's political activists modify their aspirations in a number of significant ways.

Maria Tam has now abandoned her aim of setting up a political party. It took only one suggestion from Peking that it could not stand in the way of a

Communist Party being formed in Hong Kong if other political parties were set up, to make her and other political aspirants realise that this was a Pandora's Box that was better left unopened.

Martin Lee, consistently an advocate of direct elections to Hong Kong's Legislative Council, is now pressing for just 25 per cent of the seats on the council to be filled in this way. Chinese officials have quietly signalled that they would have no objection to such a com-

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Photographs by Roger Taylor

This survey is an integral part of today's issue of the Financial Times and is not for sale as a separate section.

promise.

The Hong Kong Government's political review, planned for 1987, can now go ahead with fewer fears that it will cause a confrontation with Peking.

The retreat from calls for full direct elections seems to come from a view shared by many senior officials; and the territory's important business community, that Hong Kong could be weakened economically by the unleashing of populist political forces.

It is a view reinforced by the poor performance of the economy last year when the per capita gross domestic product contracted by almost 1 per cent following a rare slump in exports and rising concern that manufacturers have reached a saturation point in world demand for their products.

None would seriously claim that last year's enhanced political activity was a factor in the downturn, but it has reminded many in power that stability and prosperity—the common aim of London and Peking—can easily be disturbed and would certainly not be helped by the emergence of adversarial politics.

The desire to maintain stability and prosperity has resulted in a bustling courtship by Peking's socialist leaders of Hong Kong's super-rich capitalists. Some have said this is cynical and ultimately self-defeating. But Chinese officials—and a fair number of Hong Kong officials too—remain convinced that it is an essential first step to ensuring prosperity after 1997.

Many officials would argue that the modification of hopes for political reform is a reflection of growing maturity on the

part of political figures. There may be some truth in this, but much more relevant is a growing awareness that insulation from volatile political forces in China would in no way be provided by democratic reforms.

Populist forces could clearly be manipulated by Peking just as easily as the territory's post-1997 leadership—if Peking were so inclined. Put starkly, this means that Hong Kong people have very little choice but to have faith in China's good intentions.

If good intentions remain intact, then Hong Kong's other main fear is of injury due to ignorance—and there is still a great deal of ignorance both on the part of the Chinese about Hong Kong and on the part of Hong Kong citizens about the mainland.

A process has begun of "sending mandarins in two directions" that is intended to reduce this ignorance. A number of senior Hong Kong Government officials have spent periods of study in Peking over the last year.

At the same time, apart from Li Ping's widely-publicised visit and that of state councillor Ji Pengfei, a steady stream of Chinese officials has been crossing the border into Hong Kong.

Such a two-way traffic can only gradually reduce ignorance and suspicion. But the achievements of the past nine months seem to have been sufficient to mitigate feelings of unease among many Hong Kong people.

Confidence may remain the prerogative of a partisan minority for several years to come, but many would say that the experience of the past nine months gives them good grounds for hope.

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Politics

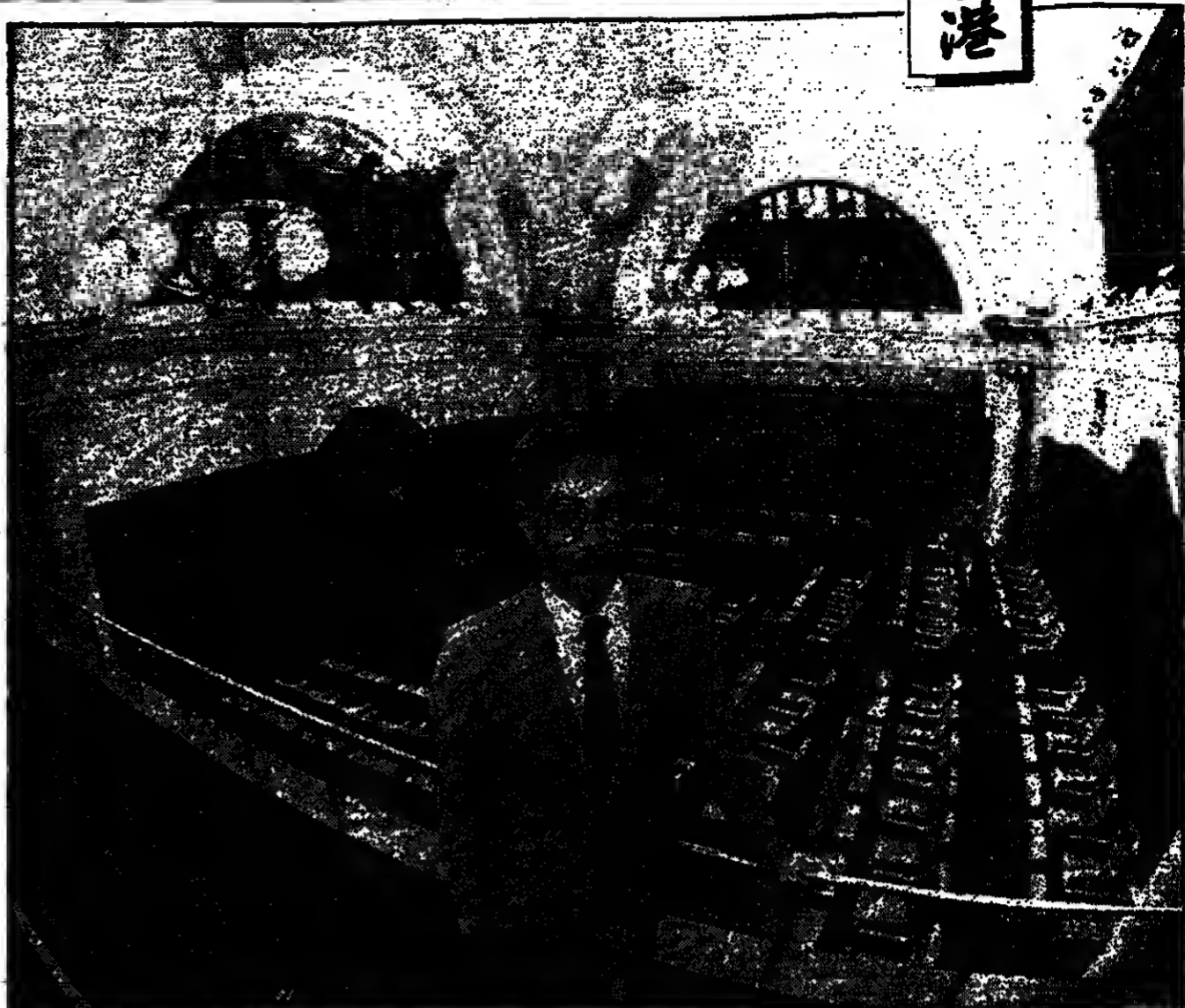
Bumpy road ahead under Peking's watchful eye

ANYONE who is optimistic or pessimistic about the future of Hong Kong has to make some...

To the extent that Peking's leaders also need to demonstrate a success in Hong Kong...

Legco last year. Though these were indirect and only for 24 of the Council's 57 members...

Basic Law. With few exceptions, those who were most critical of Britain or China are now bawling about the way things are going.



Martin Lee QC, inside Hong Kong's Legislative Council Chamber. He has earned a reputation for being as strident inside Legco as in the Peking-linked Basic Law Drafting Committee

are shifting their views. Mr Martin Lee, QC, an elected member of Legco who is on the Basic Law Drafting Committee...

intentions and willingness to compromise. China itself has shown most concern—some would say too much—about retaining the territory's 'super-capitalist'...

This view is somewhat exaggerated. British officials strongly disagree that there will be a 'lame-duck' government and Peking's representatives in Hong Kong from 1986...

All this suggests that Britain, China and Hong Kong would have the greatest difficulty escaping their shared commitment to maintain Hong Kong's stability and prosperity for 50 years from 1997...

Chris Sherwell

China calls in a banker

Profile of David Li, member of the Basic Law Drafting Committee by David Dodwell



David Li, director and Chief Manager of the Bank of East Asia, not turning pink at the edges

DAVID LI was staying at the Richmond Hotel in Geneva when he was asked by China's most senior officials in Hong Kong whether he would join the Basic Law Drafting Committee. He insists that the request came out of the blue.

While the Chinese were undoing the damage of the Great Leap Forward, David Li was earning his way through Cambridge by selling second-hand bicycles to college freshmen...

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The Economy

Future seen in high-tech ventures

IF Sir John Brembridge, Hong Kong's outgoing Financial Secretary, was forced to master the art of riding wild horses as the economy has bucked and reeled its way through political and economic turmoil over the past five years, then his successor, Mr. Pierre Jacobs, faces a wholly different challenge.

He inherits a maturing economy that has reached the end of the era of exponential growth. The areas of its greatest strength—like the garment, or toy industries—have such a substantial share of world markets that future growth is more likely to be steady than startling.

The years of breakthrough growth in trade with mainland China—which insulated Hong Kong from the drab world trading environment—have also come to an end.

Since 1978, when Deng Xiaoping began the painful process of opening the country up to the outside world, Hong Kong's domestic exports across the mainland border have averaged 111 per cent annual growth. This is a trend that clearly could not last.

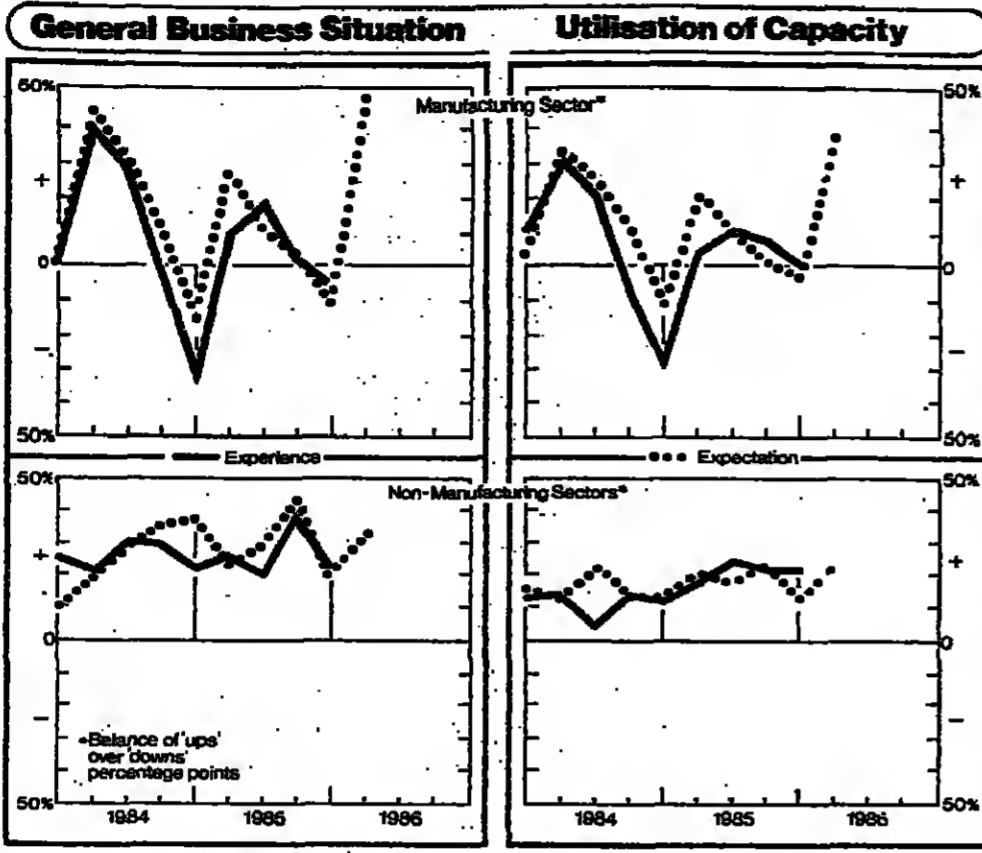
Statistics showing a 20 per cent fall in exports between the first quarter of this year and that of 1985 also bear witness to cutbacks in China resulting from the rapid erosion of the country's foreign exchange reserves.

The statistics both underestimate and exaggerate Hong Kong's dependence on China. Visible trade is undoubtedly swollen by the large quantity of components transferred by manufacturers in Hong Kong to plants being operated in the mainland.

These later emerge either as finished or partly-finished goods, and lead to simple double counting of trade flows.

On the other hand, the statistics do not measure the heavy investment in China by Hong Kong businessmen, and the equally heavy investment by mainland banks and businesses in manufacturing and services in Hong Kong.

Mr. Jacobs' task of reshaping the economy, and readjusting expectations, is made more difficult by the nagging issue of 1987. Thousands of the territory's brightest and best educated people have at least half an eye on opportunities to secure a foreign passport. They are investing abroad when Hong Kong as an economy needs their investment at home. They are saving in case the transition to



Chinese sovereignty goes sour rather than injecting cash into the economy to foster its growth. If the statistics are to be believed, Hong Kong is at present a stagnant economy. Per capita gross domestic product contracted by 0.3 per cent last year, while exports slipped by 6 per cent. Investment, as measured by retained imports of capital goods, crawled forward by 3 per cent. Demand for bank loans remained slack. Add to this the collapse of five local banks, and two of the territory's leading shippers, and a thoroughly bleak picture could be painted.

Pierced by protectionist sentiment in the US—which accounts for 44 per cent of Hong Kong's domestic exports—is certain to constrain growth prospects in the textile sector, and could easily spill over into the already-trail electronics sector.

Thankfully, these statistics alone do seem to lie. Unemployment is non-existent (at 2.2 per cent). Manufacturers report orders in hand between four- and five months. Inflation is a mere 2.6 per cent. The stock market has been touching record levels—in line with other exchanges overseas—since April.

The Government generated a budget surplus of HK\$1.2bn, while a visible trade surplus of HK\$3.7bn was recorded—the first in decades. A 15 per cent fall in the Hong Kong dollar since May last year has added export competitiveness. The rising cost of yen-denominated imports has been offset by the falling price of oil, and of goods imported from China. Forecasts of 8 per cent export growth this year no longer seem unreasonable. Nor do predictions of gross domestic product growth of 5 per cent or better.

The conundrum is at least partly resolved by examining Hong Kong's services sector, which has grown steadily as Hong Kong's manufacturing industry has declined. While tourism and the hotel industry have been buoyant, so the port has been running at full capacity.

Strong foreign investment in trading companies, and companies providing a wide range of financial services, have also absorbed labour shifting out of the manufacturing sector. So between 1981 and 1985, employment in services rose by 29 per cent, from 597,500 to 769,000 at a time when manufacturing employment fell by 10 per cent from 943,000 to 849,000. The surplus on invisible trade—which reflects the buoyancy of the services sector—amounted to HK\$1.5bn last year. Some have talked of this shift away from manufacturing and into services as inevitable and good. Among those sounding a more cautious note is Mr. Vincent Cheng, chief economist for the Hongkong and Shanghai Banking Corporation:

"We have to rely on manufacturing. It provides the largest value added, and has a strong employment generating effect," he notes. "It's silly talking of Hong Kong becoming a services centre if you don't have a substantial manufacturing core to make demands of the services."

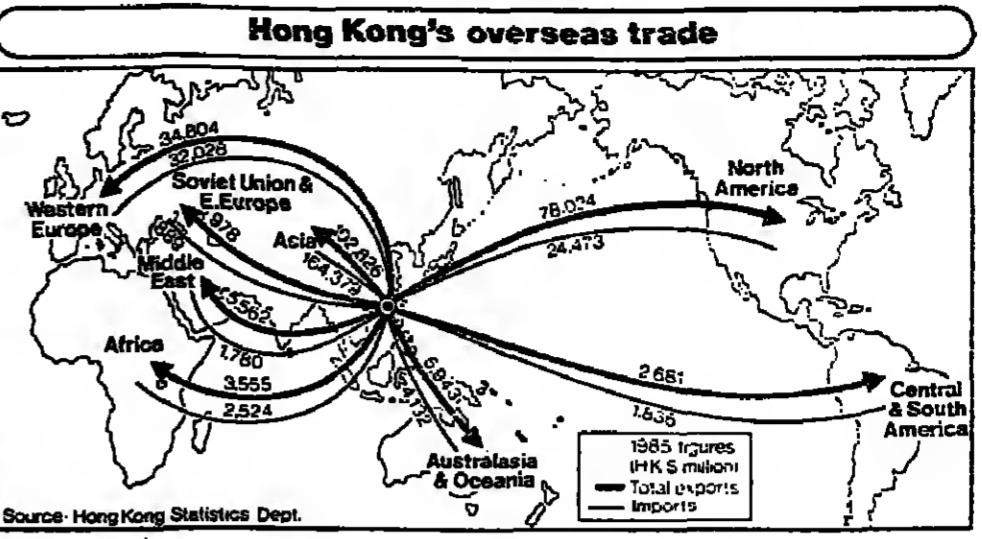
Economists at the Hang Seng Bank, reflecting a similar concern, recently called for a new industrial transformation of the economy, saying this was "essential to the longer term growth momentum of the economy."

They note that the contribution of the services sector to the economy has grown from 63 per cent in 1971 to 73 per cent at the end of 1984, while manufacturing has declined from 29 per cent to 25 per cent over the same period. This is natural in a maturing economy, they say, but point out that services—unlike manufacturing—do not generate foreign exchange on a scale sufficient to meet the needs of an externally dependent economy like Hong Kong.

Stagnation in market penetration and product development probably indicates that Hong Kong's industrial base has reached a stage where its competitive advantage is weakening, they say. "They reach the provocative conclusion that Hong Kong's entrepreneurs must find this second industrial transformation in high technology 'tripartite ventures,' that would involve local manufacturers, foreign capital and expertise, and mainland Chinese participation. Implicit is the need for local entrepreneurs to modify their longstanding urge to make small capital investments and expect high returns within three years. Such a transformation would call for large-scale capital investment, heavy and long-term commitment to research and development, and lengthy payback periods."

With 1987 just 11 years away, it may be asking too much of local entrepreneurs to undertake such an uncharted strategic change. Mr. Jacobs' performance may nevertheless in the end be measured by whether he succeeds in coaxing them round. It may be a good bet, as Sir John Brembridge riding wild horses, but it can be no less important for the future of the economy.

David Dodwell



Source: Hong Kong Statistics Dept.

Trade Longer-term hopes stay with China

IT SEEMED a normal weekend. The newspapers were spreading gloom with reports of more protectionist legislation wending its way through the US Congress.

But at the same time officials of the Hong Kong Trade Development Council, armed with the latest encouraging export and order figures, were sailing confidently out into Hong Kong's magnificent harbour. Their boat was filled with a dozen top executives from some of Europe's biggest retailers and mail-order companies.

It was business as usual after a year in which the territory's domestic exports, long regarded as its single most important economic indicator, registered a decline for the first time in more than 25 years. Year-on-year by value, the fall was an unprecedented 8 per cent.

But the mood aboard the boat was anything but gloomy. "Damn the prophets of doom, they are always around. Hong Kong exists to sell and must sell to exist, and we can still do that."

Indeed, there are growing indications that 1986 will be no repeat of 1985, when an expected strong expansion of the US economy did not materialise but an unexpected clampdown by China on imported consumer goods did.

Air cargo is again on the increase and space on container ships is said to be growing fast. Electricity use for manufacturing is up and the big expansion in service industries began when China opened its

doors eight years ago appears to be continuing. Organisations like the American Chamber of Commerce and the British Trade Commission report that more foreign businessmen than ever are visiting the territory.

Domestic exports at HK\$5.5bn were 1 per cent higher in the first quarter than a year earlier, suggesting, the Government says, "that the decline experienced during most of 1985 has stopped." And preliminary figures for March and April indicate a possible return to Hong Kong's traditional double digit export growth.

Domestic exports for the two months were about 22 and 18 per cent higher respectively on a year earlier, with re-exports performing substantially better. Suddenly, the Government's budget forecast for 8 per cent growth in exports this year looked more than just a possibility.

Most importantly, order books are lengthening in key sectors: notably clothes and textiles, electronics, and plastics, the last closely linked to toy exports.

Figures for March suggest substantial orders running to six months ahead, and many individual manufacturers say the situation is even better now.

Two leaders in their fields, one in knitwear and the other in fashion jewellery, say orders on hand mean their factories will be working at virtual capacity until the end of the year.

The main reason for the improved outlook, in addition to

some improvement in the US economy and stock replenishment there, is the depreciation of the Hong Kong dollar against its major competitors for the US market, which takes well over 40 per cent of the territory's exports.

The Hong Kong currency is pegged to the US dollar and therefore has remained stable in relation to its predominant market, while the currencies of competitors such as Japan, Singapore and Taiwan have appreciated markedly during the US dollar's decline. A similar, though less dramatic, relationship with Europe has also encouraged Hong Kong exports.

On the debit side, however, the depreciation of the HK dollar has meant rising costs of raw materials, especially from Japan, where the yen has risen 40 per cent against the Hong Kong dollar.

It is often forgotten that Hong Kong's labour costs are second in Asia only to Japan. It is remembered even less that Hong Kong has no indigenous basic materials and therefore is a major importer as well as an exporter. Imports from Japan alone last year were worth HK\$3.4bn.

"For every \$1 worth we sell to Japan, we were buying back \$10," says Mr. Michael See, a deputy director of Hong Kong's Trade Department. "Now that has reached \$14."

The territory's manufacturers

Continued on Page 4

Advertisement for 'Research without Tears!' featuring the Financial Times Microfilm Edition. It describes how users can access the wealth of information in the Financial Times through microfilm and microfilm indexes, highlighting the ease and precision of the service.

Advertisement for McCarthy Information Services. It features the headline 'Damned unfair, really. Expecting you to know what the South China Morning Post said about your competitor's new product last week.' The ad promotes the McCarthy Online service, which provides access to a vast database of business information, including company profiles, financial data, and market trends. It includes contact information for McCarthy Information Ltd. in London and a form for requesting more information.

Toys

Tougher to stay top of the pack

FOR NO FEWER than 14 years, Hong Kong has ranked as the world's largest toy exporter. Toys stand behind only fabrics, garments and electronic goods as the territory's biggest industry and its most successful export — and that is according to a categorisation which does not classify electronic games as toys.

Yet, despite these remarkable achievements, Hong Kong has recently been learning some of its limitations. At a major toy fair in Tokyo last month, Taiwan and South Korea stole an obvious marketing march on Hong Kong simply by producing catalogues in Japanese. At home, higher labour costs have been driving production to the Chinese mainland. And old-style subcontracting for overseas brand manufacturers is becoming riskier.

This does not mean that Hong Kong's toy industry is stagnating. Last year did see a disappointing contraction in exports after a strong performance in 1984, when overseas sales hit a record HK\$11.5bn. But export growth averaged 25 per cent annually over the 1980-84 period.

Last year was, anyway, an unusual year. The US, by far the world's most important toy market, had picked up and the famous Cabbage Patch dolls had captured American hearts. The market is also sensitive to currency fluctuations, another reason why 1985 was disappointing and 1986 is showing a recovery. According to one forecast, exports could rise in value 15 to 20 per cent this year.

More importantly for the Hong Kong industry, local manufacturers are starting to move ambitiously into design and marketing. Next month, for example, Playmates is launching a remarkable new doll called Cricket in the US market, the first it has designed and marketed. Cricket has moving eyes and mouth and makes conversation with its owner through 12 different tape recordings. Designed as a companion, it has several outfits and can play games as well.

Since the company started out in 1966, Playmates has been involved chiefly in subcontracting work — it helped produce the Cabbage Patch dolls for Coleco, for example, and its main line has been the famous Barbie Doll for Mattel of the US. In 1984 these two lines virtually cleaned out the US doll market.

Another Hong Kong company, Universal has followed a different path. It is now quoted in New York, having taken over Britain's Matchbox toys in 1982. The brand name is a major advantage in places like Japan, and its Voltroo range of diecast robots was one of the top ten toys in the US last year. Once one of Hong Kong's largest subcontractors Universal too has moved into the design and marketing of its own toys.

One factor encouraging such "vertical integration" is the evident riskiness of subcontracting work. One of the best-known contractors in Hong Kong is Kader Industries. It and others have discovered just how difficult it is to improve earnings when production agreements spell out gross profits and orders can be cancelled because particular ranges — in fact the majority — fail.

The more important point, however, is that the toy industry is finding it more difficult to compete and show flexibility — hitherto one of its greatest assets. A problem for the future, for example is the prospective loss of trade privileges with

developed countries under the Generalised System of Preferences. Manufacturers may choose to export from places like Thailand or Sri Lanka in order to retain those advantages. More immediately, it is apparent that, without China on its doorstep, offering labour at around one-quarter of Hong Kong's rates, the territory's flexibility could not have persisted as long as it has, and the toy industry would not be where it now is. The trade-off is simple: China offers land and labour, Hong Kong's manufacturers supply plant and technology. Unfortunately statistics documenting the scale of the shift do not exist.

Kader first moved some production into China in 1980. It now has six plants there producing half of its output. Playmates is using China to produce hair for its Cricket range. Others are doing the same sort of thing, and this is one reason why China has emerged so prominently. If misleadingly, in Hong Kong's toy export statistics.

Universal, which has five factories under its supervision in China is meanwhile engaged in a fresh development for the Hong Kong industry, with a joint venture in Shanghai which will produce for the local market. It has 85 per cent of the venture, and it started production a year ago — just 16 months after it was agreed.

The one foreign market Hong Kong's toy industry would most like to crack is in Japan. Its efforts have concentrated on the acquisition of the "Safe Toy" or ST mark, but each sign of progress fails to take exporters closer in practice to their goal.

Back in 1984, after a meeting of Japan's Ministry of International Trade and Indus-



Right: On the assembly line at the Kader Industrial toy factory. Above: Chairman Dennis H. S. Ting with some of the electronic soft toys produced by Kader Industrial Company.



try and Hong Kong's Governor, it was finally agreed that Hong Kong design laboratories could test local products for compliance with ST standards. Acceptance of the laboratories was regarded as a breakthrough with the Japan Toy Association, which had previously resisted the idea, but then two more problems surfaced. One was the need for a domestic Japanese "trustee" to whom consumers could appeal in the event of dissatisfaction, acci-

dent or injury. Eventually it was accepted that this institution could be located in Hong Kong rather than Japan, and this was another concession. However, because this institution would only act as a reference point, the question arose of insurance to be taken out by Hong Kong producers for awards against them. This is still being discussed.

A second, more serious problem was the matter of a licence fee for the ST mark. The Japan

Toy Association's charges on Japanese toy makers amount to one per cent of total production covered by the mark and ten per cent of total production not sold in Japan. For Hong Kong manufacturers producing principally for export, this represents an impossibly high demand.

The whole affair has caused the Hong Kong industry and government officials to wonder whether it is all worth it. The Japanese market remains small compared to the US, while

Europe is less difficult to deal with. On the other hand Japan is a rich country and a potentially valuable market, if an irritatingly difficult one.

Upmarket Hong Kong toy-makers see the matter as irrelevant, since the mark itself is voluntary. While acknowledging that discriminating Japanese consumers do look for it, they say that a good quality product, preferably one with a known brand name, can succeed in Japan on its own merits.

That said, Hong Kong's 2,300-odd toy factories, having got well beyond the status of Third World producers receiving complaints about toxic paints or unsafe toys, can still expect to face intense competition everywhere, and especially from similarly aggressive countries like Taiwan and South Korea. Its Number One world export ranking will thus remain under constant attack.

Chris Sherwell

The Wizard of Toyland

Profile of David Yeh, head of Universal Matchbox group, listed on the New York Stock Exchange



David Yeh, chairman of Universal Matchbox Group, with some of his best sellers

A LOCAL magazine called him "The Wizard of Toyland", but he might be better known abroad as the man who salvaged Britain's Matchbox toy manufacturer in 1982. His name is David Yeh, a trim, youthful-looking 56-year-old Shanghai-born Chinese who trained as a banker but found it so dull he moved into business.

In 22 years in toys he has taken his company, Universal, from a simple dolls' dressmaking concern to an integrated design, production and marketing corporation with a public listing on the New York Stock Exchange. Like few others, he represents the future of Hong Kong's world-beating toy industry.

Universal Matchbox Group, as the company is now known, had a turnover last year of US\$240m. Back in 1981 the figure was US\$82m, and Mr Yeh forecasts US\$350m in two years' time. But to be a major force, he says, Universal should be a US\$500-600m company, "so we'll need an acquisition". No target has yet been selected.

Universal's big profits earner last year was Voltroo, a multi-coloured dismemberable robot based on a children's television show. It reached the top ten most popular toys in the US, and contributed 43 per cent of 1985 gross profit and 34 per cent of turnover.

These proportions are expected to decline in 1986, when new products like Robotech and Babyface are marketed. Babyface, based on an infant exercise programme, marks a move down the age scale for Universal. It is designed, manufactured and marketed by the company, unlike Voltroo, which strictly speaking was a Matchbox product.

Also under production are motorised forms of the classic Matchbox miniature vehicles which in turn represent the group's core business. Indeed, it is clear that the company has benefited enormously by the brand name, and that Mr Yeh has come a long way since deciding not to follow his father's footsteps into banking. "I'm basically a businessman," he says of the shift. "My hobby is to make money."

He began in the toy business in 1964 by leasing sewing machines to make dolls' dresses. It was a highly labour-intensive operation in which the employment of ever-greater numbers of workers produced ever-rising returns. "From sewing," says Mr Yeh, "we went to die-cast — then wood, then dolls, then plastics."

For 12 years Universal was manufacturing under contract for the big toy companies

abroad. This is the classic activity of the Hong Kong toy industry, regarded by some as the safest though not by Mr Yeh, who says the business is too easily at the mercy of a particular toy's success or failure.

The big change came in 1977, when Universal merged with a Chicago company, and in 1978 when it acquired a 53 per cent stake in L.J.N. Toys, a manufacturer in New York state. But it was the Matchbox purchase which brought Universal to prominence. Mr Yeh says that "bringing it back to its prime" was "greatly satisfying".

Matchbox's former owners, Lesney, went bankrupt in mid-1982. Universal, recognising the urgency, stationed its board in London and beat the likes of Mattel and Fisher-Price to acquire Matchbox from the receivers for £16.5m.

At that point, only two of Matchbox's 12 factories were still in business, in Hackney, London, and in Rochford, Essex. They employed 3,000 people, but with costs around 100 per cent higher than in Hong Kong they were simply failing to compete.

Mr Yeh shut down Hackney's Matchbox miniatures plant and moved its operations to Macau, the Portuguese outpost near Hong Kong. The Rochford operation was cut back, but it remains in business producing hobby items like model kits and pre-school toys. Even now, Matchbox remains the largest toy manufacturer in Britain.

More importantly, it has turned the corner. After its losses were trimmed in 1983, the Matchbox line came close to breakeven in 1984 and in 1985 it made US\$5.5m. Matchbox's previous best year saw a profit of £10m, according to Mr Yeh.

By last year Universal realised it made sense to sell L.J.N. Toys. Although it contributed

substantially to profits, the philosophy of L.J.N. and Matchbox was different, according to Mr Yeh, and the communications group MCA was a willing buyer in a deal which gave Universal a profit of US\$17.6m.

L.J.N., whose turnover had risen seven-fold to US\$60m by 1983, is said to have gone on to still better things under its new owners. For Universal the sale allowed it to reduce its indebtedness and undoubtedly helped gain the New York listing in April this year, 11 months later.

A total of 3m shares was offered at US\$16 each, 1.25m by the existing shareholders (principally Mr Yeh, but also his fellow directors) and the rest by the company. That meant new investors would acquire just under 31 per cent of the company, while Mr Yeh himself would hold almost 39 per cent.

The offering was four times oversubscribed, and the proceeds to the company were earmarked for the repayment of more debt and further corporate development. Mr Yeh and the other selling shareholders realised US\$18.7m after underwriting discounts and commissions.

Universal is now one of the world's leading toy companies, but the rest is sales of its own products, with 46 per cent of the total in the world's most important market, the US.

On Mr Yeh's reckoning Universal has some way to go before it joins the ranks of Mattel and others, it has by any standards made a major breakthrough, putting not only itself hot also Hong Kong firmly on the toy map.

Chris Sherwell

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owned one in the world. Our connections with China are excellent and we're developing selective opportunities in the vast potential offered by that market.

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Shipping Register

Under two flags may be the new regime

THE CESSION of British sovereignty over Hong Kong will have one obvious effect on the shipping industry: vessels will no longer be able to register in Hong Kong and fly the British flag.

Concerted efforts are under way, however, which could bring a shot in the arm for the local shipping industry as well as introducing innovation into shipping registers.

The agreement between Britain and China stipulated not only that the private shipping industry would continue to operate in Hong Kong but also that "the Hong Kong Special Administrative Region shall be authorized by the central People's Government to continue to maintain a shipping register and to issue related certificates under its own legislation in the name of Hong Kong, China."

Under the active encouragement and advice of the Hong Kong Shipowners' Association, talks have been going on since in the framework of the Joint Liaison Group. The result could be a register on which ships would fly two flags—that of the ultimate sovereign (changing from the UK to China in 1997) and new Hong Kong flag.

The size of the Hong Kong-owned and managed fleet is cur-



ing registration requirements so lax that the new flag was seen as a flag of convenience, potentially causing trade union boycotts around the world.

The Shipowners' Association's proposal is that there must always be what is called a "genuine link"—that is, that the owner of a registered vessel must have a properly incorporated and legally accountable company in Hong Kong and that the ship should be managed from Hong Kong.

The concept of managing a registered vessel from the place of registration would be innovative for the world shipping industry.

China's attitude to the complex proposals which have been made remains unclear. Even within Hong Kong, there are still important organizational and financial issues to be debated if the register appears feasible.

A particularly sensitive point could be the fact that China's own shipping registry is regarded by many as failing to meet international standards. China's equivalent of Lloyd's Register is not a member of the International Association of Classification Societies.

Alexander Nicoll



A big expansion programme is taking place in the container decks of the Modern Terminals Group

Shipping fleet expands

THE SHIPPING fleet, in terms of deadweight tonnage, actually increased last year despite the tribulations and sell-offs of leading owners.

The Hong Kong Shipowners' Association says the fleet, at 1,881 vessels totalling 57m tons, is the third largest after Japan and Greece, making up 8 per cent of world tonnage.

The key to the apparent resilience of the numbers is that the Association includes not only owners but also ship managers. Companies such as Walllem and Denholm have benefited significantly

from the increasing tendency for ships to be owned by banks rather than by their original owners.

This trend means that ship managers have been encouraged to expand the services they offer from simply looking after vessels themselves to providing corporate, commercial and financial skills.

Walllem, the largest such company, had 114 ships under full

management in May and was providing some services for a further 45. Like those of Hong Kong owners, the ships are rarely seen in the harbour. But they are managed from Hong Kong, and Mr Michael Steele, Walllem's managing director, sees the territory as an ideal centre because good technical skills, communications, crewing and chartering out ships, repairs and legal and financial services are all available.

"Until the middle of last year bank business would be in and out," Mr Steele says. "A ship would be taken over and taken to a port, we would arrest it and then sell it. Now, banks cannot afford to take the short-term view. They have to hold on to them."

Since most banks are not experienced in managing, crewing and chartering out ships, managers have to play an

expanded role which, Mr Steele believes, could lead to lasting changes in the way that ships are financed and run.

According to this view, "professionals" such as Walllem and other ship managers would form part of a trinity jointly running the bulk and tanker shipping industry, the other interested parties being the owner, acting chiefly as a finance house, and the cargo interests which want goods to be shipped.

Alexander Nicoll

Shipowners Association

Banks join in the rescue

THE SHIPOWNING business in Hong Kong has become a prolonged salvage operation. Two of the three largest shipowning groups are in the hands of their creditors, while the third—Sir Yue-Kong Pao's World-Wide—avoided the same fate with a timely and drastic reduction of its fleet.

Paradoxically, the news is not all bad for Hong Kong. The increasing numbers of ships newly in the hands of banks have brought growing use of management and other services for which the territory is an important centre. This could be a lasting structural change for the industry, since few people expect old-type shipowners to regain their former dominance.

But for the moment it is a question of "balancing" the shipowners' attempt to weather the chronic over-capacity in the world's fleet and hold on to what they can of their businesses in the face of impatient creditors.

Shipowners in deep trouble are scarcely a new world phenomenon. Many European owners have already disappeared from the scene—and many shipyards fallen silent—since the energy price rise, recession and high interest rates of the 1970s.

The problems were compounded by persistent new building. For the Hong Kong owners the inevitable reckoning was delayed because they specialised in putting their new buildings out on long-term charter, effectively acting more as finance houses than as active shipowners.

Long-term charters meant that the crunch was delayed, but they have not reduced its intensity.

For the banks which financed the fleets, the reputation of the shipowner was a powerful aid to confidence. Most loans were, in any case, secured on the assets themselves—the ships. But lenders have since discovered that the close intermeshing of privately-held and publicly quoted companies—typical of Hong Kong's family-controlled groups—made it less certain exactly to whom they had been lending and obscured the true debt position of the borrower.

Even more stark, the dramatic decline of world ship prices and charter rates has forced large write-downs.

Founded mainly by Chinese families who came to Hong Kong as a result of the Communist take-over in 1949, the Hong Kong shipowning business has pursued the role of the exile even though the families are now based firmly in Hong Kong. Few ships from the still large Hong Kong-owned fleets ever actually pass through the port, and it is mostly foreign banks, particularly Japanese, which must now bear the results of their difficulties.

Of the C. H. Tung group's US\$2.7bn of debt, for example, Japanese creditors account for about 65 per cent of the privately-held side and about 40 per cent of the total. Hong Kong banks—the Hongkong and Shanghai Banking Corporation is a major lender—account for 15 per cent of the total.

Although the Tung group's debt restructuring and that of the smaller Wah Kwong group are likely to be long and hard-fought, most bankers and shipping experts expect deals to be struck in the end which will allow the groups to survive in some form. China's indirect involvement in reinjecting funds into the Tung group is one factor inspiring confidence.

The biggest incentive for the banks, however, is that without a deal they will be left with no alternative but to seize the ships and then have them managed or sold in a free-for-all

likely to depress prices still further. This could be costly in itself as well as failing to capitalise on the fleet, albeit damaged, which the names of the Hong Kong owners still command.

Although arrests of ships are now a frequent occurrence, and smaller banks may continue to seize and sell their assets, preferring to take their losses for good rather than hang on for the overall restructure, the bigger banks, as they have done with much larger sovereign debtors, are generally likely to hold together for the long haul even if there are extremely tough negotiations.

Nonetheless there is an ever-present risk that entire restructurings can be scuppered by a single writ from an obstreperous creditor.

Even provided that the current negotiations are successfully completed, the crisis is not over. The world shipping industry will still be faced by huge overcapacity.

Mr Helmut Sohlen, senior vice chairman of World-Wide Shipping Agency—which is debt-free but faces the expiry of charters—believes that it will be at least two years before there is equilibrium in the shipping market, with freight rates providing an adequate return. He points to four factors as supporting an eventual return to an orderly market:

- The closure of shipyards, reducing world shipbuilding capacity.
- A general commitment to scrap ageing bulk carriers and tankers.
- A diminishing number of speculators on ship prices.
- A more selective financial community, waking up to the fact that "a ship is not an asset in itself; it is only an asset if it is trading." Even that assumption has been challenged by Hong Kong owners' painful experiences when charterers themselves defaulted.

All this would be negated, Mr Sohlen believes, if shipowners were to repeat their tendency to order new ships at the first indication of a market upturn.

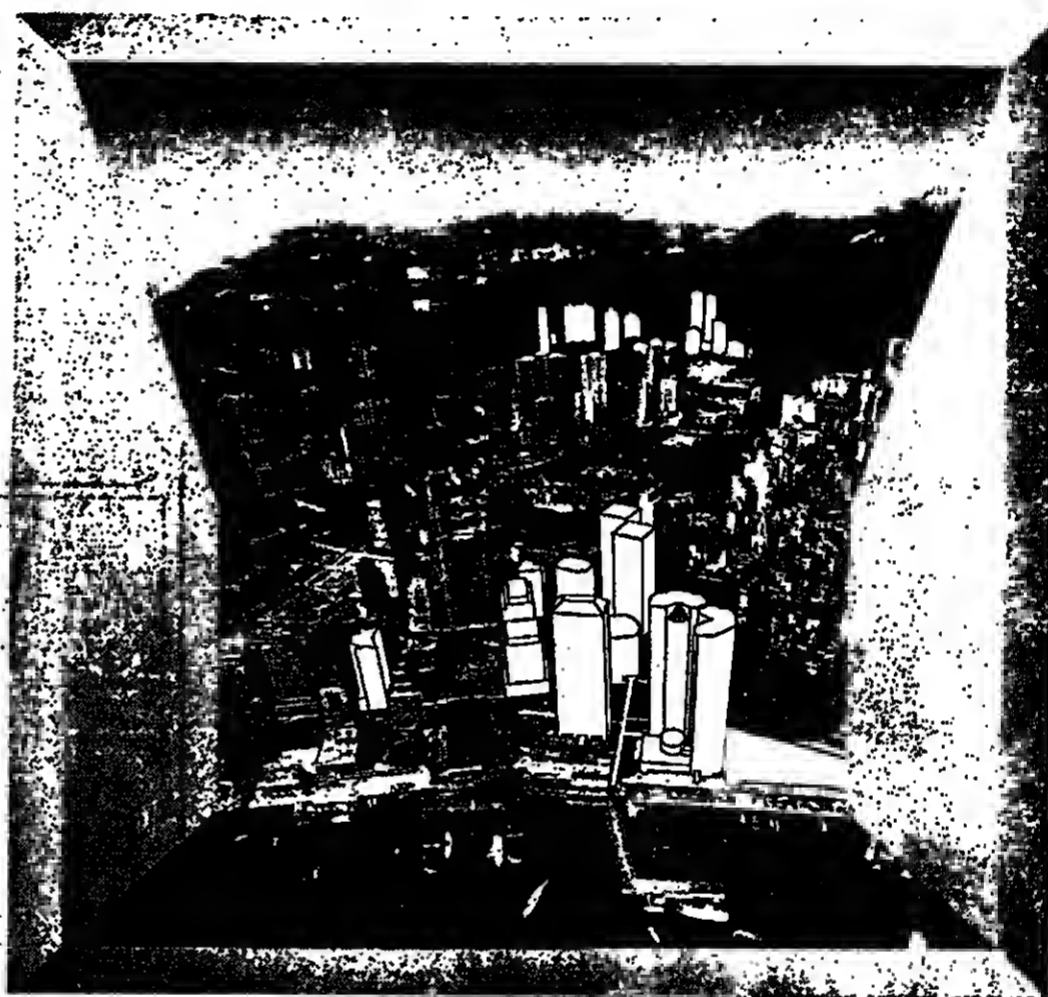
Alexander Nicoll

Hong Kong Shipowners Association

SHIPS OWNED AND/OR MANAGED BY MEMBERS		
Year	Vessels	Dead-weight tons (m)
1980	1,400	55.4
1981	1,604	61.5
1982	1,657	63.7
1983	1,610	57.7
1984	1,305	55.6
1985	1,281	57.1

TYPES OF VESSEL OWNED/MANAGED AT END-1985		
Bulk carrier	565	25.5
Tanker	167	19.1
Container/semi-container	186	5.4
General cargo	159	2.0
Oil/bulk/ore	18	1.6
Combination carrier	7	1.2
Others	179	4.0

MAIN FLAGS OF VESSELS AT END-1985		
Liberia	412	28.1
Panama	427	11.7
British (Hong Kong)	188	8.4
Denmark	35	1.5
British (UK)	30	1.4
Others (26)	189	6.0



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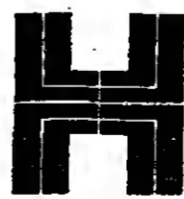
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It pays to address yourself properly

HONG KONG 8

Alexander Nicoll looks at how three of the top shipowners are coping with the present crisis in the industry



Helmut Schmen, senior vice-president of World-Wide Shipping Agency: he took a far-sighted view of the coming shake-out

Realist at the helm

Profile: World-wide Shipping Agency

AS THEY struggle through their debt problems, Hong Kong shipowners and bankers can be forgiven for grinding their teeth at the many mordant remarks made by Mr Helmut Schmen, senior vice-chairman of World-Wide Shipping Agency, and one of two sons-in-law of Sir Yue-Kong Pao running the World-Wide businesses alongside their father-in-law.

"I'm a realist. Some of our colleagues were not prepared to face reality," he says. Like other Hong Kong shipowners, World-Wide had many ships out on long-term charters, and was thus protected from the early stages of the shipping industry shake-out.

But, taking the view that there would be no near-term recovery in the market, World-Wide began to sell off most of its fleet some five years ago. From over 200 ships totalling more than 2m tons in 1979, the fleet is now down to 68 totalling 8m tons—still relatively large.

with an average age of 18 years, of which only six are on long-term charters. By the end of the year, 30 per cent of the fleet is likely to be working the spot market. Cynical analysts have been reluctant to accept the Pao group's protestations that, despite its healthy financial position, it does not want to feel responsible to small shareholders.

For example: "Intellectual honesty, financial discipline and emotional detachment do not generally seem to be very strong points in the character make-up of shipowners, and I have personally been astounded at the degree of self-delusion of which the industry is capable, coupled with an apparent inability to learn from collective misjudgment. Examples are rare, and when they are found the results speak for themselves."

The years of reduction of the group's shipping interests have seen marked expansion of the Pao empire in other areas. It has taken over the Hongkong & Kowloon Wharf and Godown Company, which then last year bought Wheelock Marden. The resulting combine owns the Harbour City/Ocean Terminal shopping, hotel and residential complex in Kowloon. It also operates the Star Ferry, the tram system and the cross-harbour tunnel as well as having many other property interests.

Another diversification has been an investment in Dragon Airlines, which so far has only one aircraft flying on South-

East Asian routes and, more significantly, into China. To the chagrin of Hong Kong's established airline, Cathay Pacific, Dragon is applying to fly to London and Amsterdam. It has received strong political and economic backing from Peking. As Dragon's managing director, Mr Schmen says the investment reflects potential commercial opportunities in China and the possibility that a Hong Kong based airline could be well-placed after the handover of Hong Kong to China. Y. K. Pao is keeping in close touch with China as it prepares to take over.

Hong Kong works. £1.1 billion in overseas investment proves it. UK companies have invested substantially in manufacturing in Hong Kong. The fact is, manufacturing in Hong Kong is extremely profitable, whether you're considering a joint venture or a plant of your own. And getting started is easier than anywhere else on earth. There is minimal government interference in the private sector. Consistent economic policies of free enterprise and free trade. No exchange controls. And profits tax is only 18.5%. There's a skilled and eager work force, the world's third largest container terminal and the most sophisticated communications system in the region. In just three years, foreign industrial investment in Hong Kong has risen 63%. The reasons are obvious. Profit without penalty, success without tears. Find out more about how Hong Kong can work for your company.

Orderly restructuring sought

Profile: C. H. Tung Group

THE C. H. TUNG group's US\$2.7bn of debt is the subject of one of the world's largest, most intricate and politically sensitive corporate restructurings.

If the operation proceeds along the lines proposed to creditors at a meeting in Hong Kong in mid-May, the Tung family will retain management control and have the chance eventually to regain equity control should the slimmed-down group recover.

This is a lot to swallow for a once-proud company founded by the late C. Y. Tung, and formerly commanding some 150 vessels. The founder's son, C. H. Tung, has devoted himself entirely to salvaging the company from the ruins in which it found itself last year. Even before the May creditors' meeting, he had circled the world three times canvassing support for the new plan.

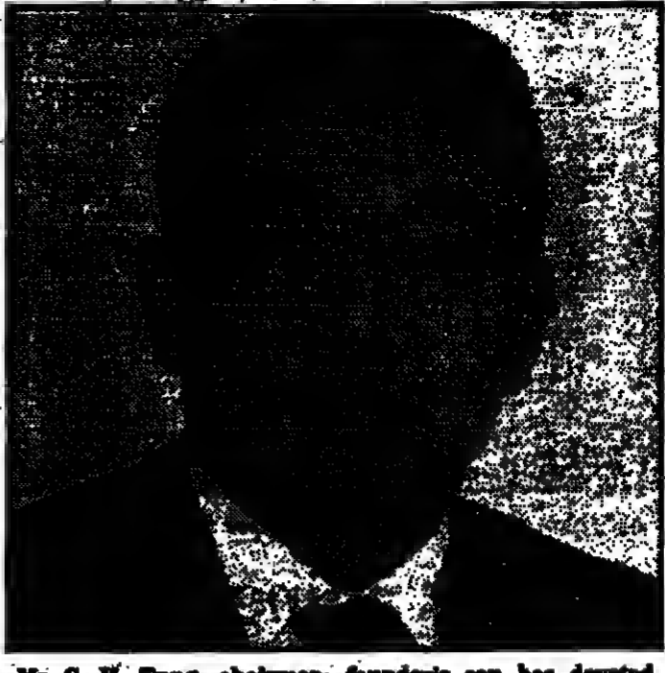
The group is faced not only with grim financial realities—a large debt, partly secured by a portfolio of ships now well below their original value. In addition, the debt was divided between privately held companies and the publicly-quoted arm, Orient Overseas (Holdings) Ltd (OOHL). Investigations following the collapse revealed a complex chain of transactions between the two sides of the group, which in turn made it difficult to distinguish the debts owed by each side.

Many creditors had previously been unconcerned about to which side they had been lending, and unaware of the size of the overall debt. Creditors' first instinct in such a collapse would be to fire the existing management. But in this case it is generally believed that there would be much to lose and little to gain from such a move. The business is seen as being dependent on the Tung name and the family's contacts.

If the Tungs were removed from the company, the view is that banks might as well make the best of their security on individual loans rather than participate in a time-consuming and elaborate restructuring with uncertain long-term benefits. This could be the view that banks take in the end, but at present all efforts are focused on working out an orderly restructuring.

Further complicating the picture are the Tung group's long-time links with Taiwan. These have proved particularly sensitive in that China, seeing the direct involvement of Mr Henry Pao, a prominent businessman, is injecting new funds to keep the Tung container business afloat. In addition, the Bank of China was involved last year in providing bridging finance to keep the company going while it worked out a temporary operating agreement with creditors.

Since the extent of the group's troubles became clear last September, intensive negotia-



Mr C. H. Tung, chairman: founder's son has devoted himself to salvaging his company

tions have been under way between creditors, particularly the Hongkong and Shanghai Banking Corporation, which stepped in with a US\$150m standby loan, and Shearson Lehman Brothers and Hambro Pacific as advisers to the private and public sides of the group respectively.

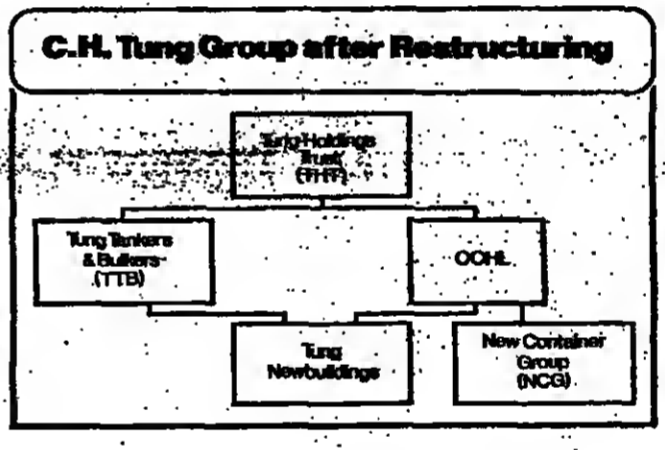
Illustrating the complexity of the problem, the private group alone consists of some 500 companies. What has emerged is a plan simple in outline but inevitably complicated in detail and still subject to adjustment in negotiation. Like all such attempts, it will depend on the approval of a vast majority, if not all, of the group's 150 creditors.

The key principle underlying the plan is to treat all debt, whether it is part of the US\$1.45bn owed by OOHL or the US\$1.25bn owed by the so-called Tung Private Group, in an equal and co-ordinated fashion relating the value of each loan to the current market value of the underlying asset. Debt is treated as secured only up to the market value of the ships or other assets.

Portions of loans accordingly treated as undersecured or unsecured are to be converted into interest-bearing notes or equity. About \$400m of OOHL's debt, and about \$250m of the TPG debt, are to be converted into equity.

The second key element of the plan is the proposed structure of the new group. This will again disregard the public/private distinction and divide the Tung fleet between the container ships, seen by many as providing the group with a future, and the tanker and bulk carrier side. As can be seen from the chart, the plan boils down to five major entities.

Tung Holdings Trust. This is the most innovative aspect of the restructuring. The trust will exist solely to receive dividends from its two subsidiaries and pass them to the creditors as beneficiaries. Mr Tung would be a trustee and would contribute shares not pledged elsewhere to the trust.



At the May meeting banks agreed to form a steering committee led by the same five banks minus Standard Chartered, which is however, a member.

Meanwhile, the Tung group is seen to demonstrate that it has already introduced cost-cutting measures and financial stringency, as well as strengthening its financial management with the appointment of Mr Norman Thompson, former chairman of the Mass Transit Railway, and Mr Richard Chase, formerly of GEC, as finance committee chairman and financial controller respectively.

Alexander Nicoll

Optimism takes a nosedive

Profile: Wah Kwong Shipping

IF THE FATE of the Tung group is uncertain, that of the smaller Wah Kwong Shipping is precisely the opposite. In a restructuring of the company's US\$220m debt have been under way since January, but difficulties raised by creditors, notably Citibank, have made the final outcome unclear.

Mr Frank Chao, the company's president and son of the founder and chairman, Mr T. Y. Chao, had for years insisted that

the prospects for the shipping industry were bright. His optimism was matched by continued new ordering of ships. Even last autumn, Mr Chao was saying that "shipping is at the lowest it has ever been, and we intend to take advantage of this and to expand our shipping interests."

The other Hong Kong shipowners, Wah Kwong's success was based on securing long-term charters before committing itself to new buildings. But this apparently safe and conservative strategy was cruelly exposed by the successive failure of four charterers: Irish Shipping and Scottish Ship Management in 1984, Japan's

Sanho in 1985, and, as the final straw, Australia's Kangaroo Line in January this year.

Now, instead of expanding, Wah Kwong is faced with a drastic reduction of its fleet from 80 vessels to between 42 and 45, according to the terms of the restructuring plan put to creditors at the beginning of May. It would renegotiate delivery terms for new vessels, accepting perhaps six of the nine on order.

Revaluation of the fleet produced a loss after extraordinary items of HK\$2.58bn for 1985, with an operating loss HK\$220m which compared with a profit of HK\$225m in 1984.

According to the plan, put

together by Amer Asta as Wah Kwong's adviser, the Chao family would commit their wealth to saving their company. Meanwhile, about half of the company's debt, owed to 48 creditors, would be converted into equity. Standard Chartered Bank is the biggest creditor.

For the moment, however, the group is surviving—like the Tung group—only thanks to a temporary interest payment plan under which creditors release to Wah Kwong charter hire payments made to them by charterers.

Alexander Nicoll



Frank Chao, president of Wah Kwong Shipping: faced with a drastic reduction of fleet from 80 vessels to 45

Cruise Industry

Strong interest in visits to mainland

TO SAIL into Hong Kong's great harbour—whose only probable rivals in terms of magnificence are San Francisco, Sydney, Rio de Janeiro and Cape Town—is to experience one of the great natural sights of the world. And an estimated 27,000 cruise-liner passengers did exactly that last year, with more expected to do the same this year and next.

Britain's P&O, whose presence in Hong Kong extends back to 1844, is especially keen to expand its cruise-liner trade to the territory and is launching a world-wide publicity campaign over the next few weeks in support of these of its ships: the Southampton-based Canberra, the Los Angeles-based Royal Princess and the Sea Princess, which is to move its base from Southampton to Los Angeles in November.

Swire Travel, which along with P&O Travel comprises Hong Kong's two leading travel agents involved in the cruising business, specialises in on-the-ground services for other world cruise-liner passengers calling at Hong Kong, including those from Cunard's Queen Elizabeth 2.

Hong Kong to and from major Chinese ports and others in the Asian Pacific.

There are no precise figures for Hong Kong's overall cruise-liner trade, but the Hong Kong Tourist Association, basing estimates on passenger arrivals by sea, including all those from neighbouring China and Macao as local services, believes that more than 27,000 cruise-liner passengers visited the territory last year, a 4.5 per cent increase on the 25,800 estimated to have arrived in the previous year.

While future growth in the Hong Kong trade is not expected to be spectacular, the tourist attractions of side-visits to mainland China, coupled with P&O's plans, should ensure steady growth over the next few years. P&O, whose 1,700-passenger Canberra will continue to visit Hong Kong at least once a year, is adding at least four Hong Kong calls over the coming season, with the possibility of more in a couple of years' time.

The company's newest liner, the 1984-commissioned, 1,200-passenger Royal Princess, will and two sectors and begin two of its 1987 Pacific cruise programmes in Hong Kong in April and May. The 700-passenger Sea Princess will also make two Hong Kong calls during its 1987 Pacific schedule, in October and November.

P&O is studying adding an around-the-world cruise with a Hong Kong stop out of Los Angeles after the Sea Princess trade now represented about 30 per cent of his company's total revenue against only 10 per cent seven years ago, when only 800 of Swire customers toured China against more than 10,000 now doing so on one-day to 14-day cruises.

One of Swire's major involvements is with Pearl Cruises of Scandinavia, whose Pearl of Scandinavia is the only fully Asian-based cruise-liner, and specialises in 12-day to 15-day cruises throughout the year, sailing regularly in and out of

Productivity Centre, the courses set out three objectives:

- To motivate junior and middle management and supervisory personnel in Japanese enterprises to develop better working morale and attitude, thereby
- To provide the participants with a forum for better mutual understanding and friendship to create richer spiritual life; and
- To provide the participants with opportunities for better understanding in Asian situations to promote international friendship and co-operation.

The centre has organised more than 50 cruises over 15 years involving 20,000 industrial and business managers.

"What might appear to be mixing business with pleasure," said Captain Groves, "is in reality almost 100 per cent work. Friends are left at home, and en-

Larry Klinger

香港



MR DUDLEY GROVES, seen above, is captain of the Coral Princess, the Hong Kong-based leading seminar for Asian businessmen.

Business and pleasure afloat

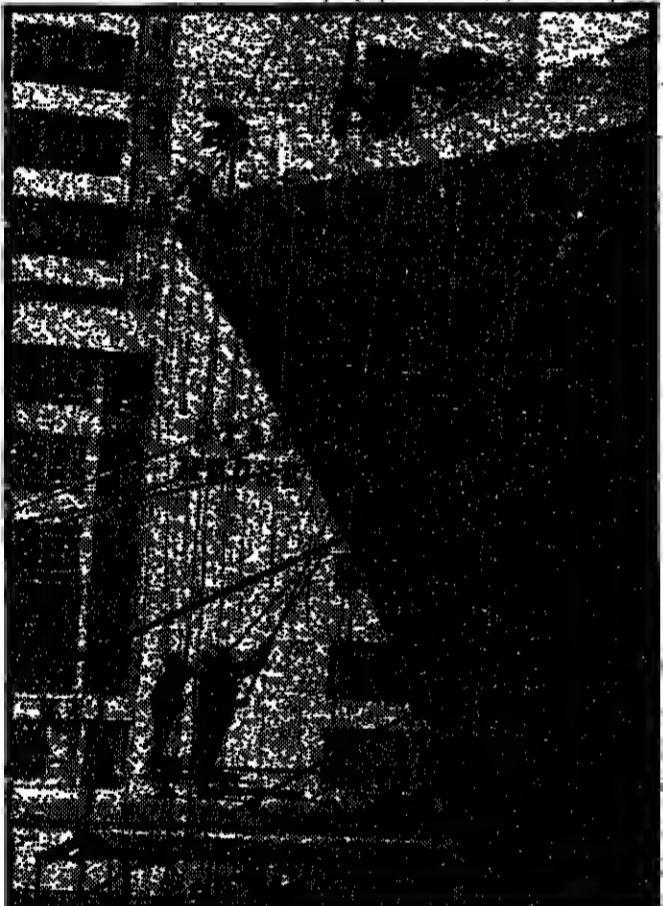
there visits to places like Hong Kong, China and Singapore are primarily taken up with visits to industries."

Fifty hours of sailing time are devoted to lectures and group discussion, and two hours after dinner each day are set aside for "sports, appreciation of music and art and nautical astronomy."

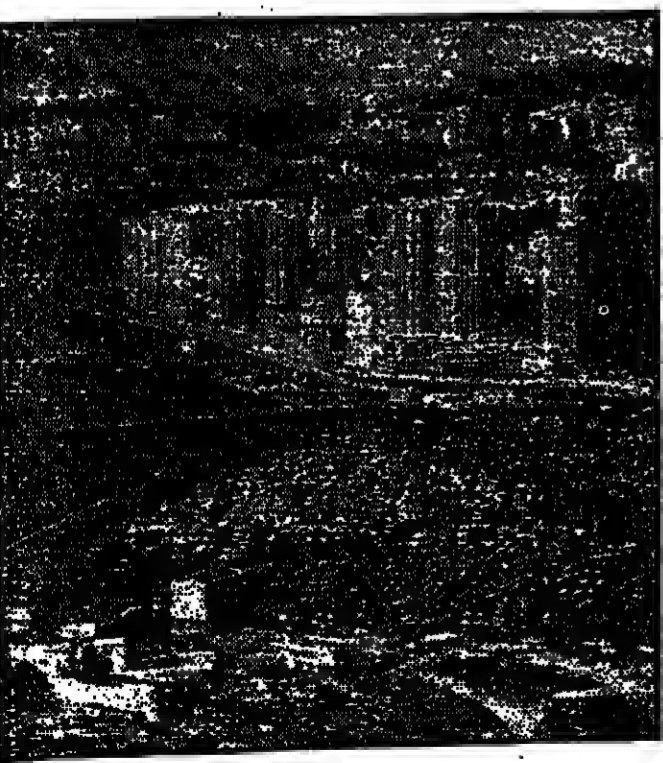
Larry Klinger



Its next flight will be on Cathay Pacific.



Cunard's Queen Elizabeth 2, shown above during a recent call into Hong Kong harbour for repainting, regularly visits Hong Kong during world cruises. Below: Eastern Corridor Causeway Bay, which is also a cargo handling basin, shows the royal Hong Kong yacht club



At Cathay Pacific, we believe our passengers deserve better than frozen, packaged and processed food.

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HONG KONG 10



Hong Kong's busy international airport at Kai Tak is already beginning to feel the strain. Right: Stephen Miller, general manager HK Dragon Airlines: battling with Cathay over routes.



Unseemly duel over air routes

Aviation

ANYONE SEARCHING for a clear example of where Sino-British co-operation will be sorely tested in coming years need look no further than aviation, where two different but thoroughly political questions will rear their ugly heads.

One concerns a second Hong Kong airport. Limits on the existing centrally-located strip at Kai Tak will be under strain well before 1997, but there are no easy sites for another. In both of the two possibilities engineering will be difficult and the costs exorbitant.

With lead-times long it may be necessary to consider a different alternative—like sharing an airport across the frontier with the Guangdong province of China.

The other issue is posed by the sudden emergence last year of Dragon Airlines, which with one leased Boeing 737 and an impressive Pekingese pedigree has taken on the might of Cathay Pacific, the territory's unofficial flag carrier controlled by two of its biggest names—Swire's and the Hongkong Bank.

Of the two issues, the duel between Dragonair and Cathay is the one which has already caught people's imagination. The fight has been bitter, public and, so far, broadly even. Neither has won much, while Dragonair has continued to lose money and Cathay has seen its public image dented.

The two are now at logger-heads over services and routes to Europe, the US and elsewhere. But the dispute which brought everything into the open was the two airlines' battle last year for a licence to fly to Peking.

Dragonair, presenting itself as a regional carrier geared for the domestic market, applied for permission to fly to Peking, Shanghai and eight other centres. Cathay, saying it had long sought Peking and had built up the market since starting Shanghai flights in 1980, opposed Dragonair's applications for the two main cities.

Hong Kong's licensing authority, basing its view on the government policy of one carrier

per route, decided in favour of Cathay and gave Dragonair the eight other centres. It was Dragonair's frustration at Cathay's refusal to concede on the two routes vital to Dragonair's success as a China operator which led it to consider long as well as short routes elsewhere and to take on Cathay directly.

Now the two are battling for routes to Amsterdam and Manchester, and Cathay is opposing Dragonair's application to fly to London. Meanwhile Dragonair has overcome warnings from Cathay to win licences to fly to four destinations in Thailand and has applied separately for four US cities not operated by Cathay, including Los Angeles and Houston.

It is an unseemly battle and one which could damage Hong Kong's longer-term interests without a compromise which divide routes, perhaps in a way done by airlines like BA and BCal or Air France and UTA. The two airlines have already held talks but to little effect. The insults already traded have pushed the gap of understanding too wide.

To many some sort of accommodation seems essential if the two are to survive the transition to 1997 and, more importantly, if an awkward political clash between the British and Chinese governments is to be avoided. There are few matters more political than air services—agreements and designations and licences for air carriers, and the Cathay-Dragonair fight fits the mould well.

Dragonair's main Hong Kong shareholders as of last November are Sir Yue-kong Pao, the Hong Kong shipping magnate, who holds 35.2 per cent, and Mr Ronald Chao, who holds 24.7 per cent. Mr Chao is the son of Mr K. P. Chao, who had launched the business earlier in 1985.

The principal mainland interest is the 25 per cent shareholding of the Hongkong Macau International Investment Company, which is in turn owned by the Bank of China, a key economic agency of the Peking government.

The investment company, capitalised at HK\$500m, was

originally set up along with overseas Chinese businessmen to seek commercial opportunities with the Chinese government. Dragonair is the first such venture. Other links with Peking stem from the personal contacts of Sir Y. K. Pao and Mr K. P. Chao with top Chinese leaders like Deng Xiaoping and Zhao Ziyang.

Matters are complicated, however, by CAAC, China's national airline. This is itself a powerful bureaucracy, being China's aid regulatory agency and part of the air force. CAAC is reckoned to have had its own interest in thwarting Dragonair's progress: it already has 57 flights to Hong Kong each week, against only six by British carriers into China.

Dragonair's mistake in the early days was its failure to appreciate how important air routes are to commercial success. Its current shareholding structure is now designed to demonstrate that it is "British" through Sir Y. K. Pao and Mr Ronald Chao, so that London can negotiate terms with Peking

for a belated start-up on its China routes.

Even then China must itself agree to accept Dragonair at the eight centres, some of which are classified as military airfields. As matters stand, meanwhile, Dragonair is managing to keep its 737 in the air up to seven hours a day on regular charter flights—three a week to Nepal, five to Guangzhou, two to Xi'an and the odd service to East Malaysia. More charter flights are due to start soon.

Dragonair admits that it has been losing money and analysts estimate that the loss so far is of the order of HK\$30m. With paid-up capital at HK\$300m it can afford to wait. But it has the overheads for three aircraft and commercially-guided shareholders, so it must be hoping that with the extra flights to Thailand the corner can be turned.

As for Cathay, its hugely successful sale of shares to the public in April—the largest offering ever in Hong Kong—has helped to establish more of a local identity by creating a larger pool of individual and

institutional Hong Kong shareholders. They now hold 22½ per cent of the company, with Swire Pacific owning 54½ per cent and the Hongkong Bank 23½ per cent.

Cathay was furious at Dragonair's early claim to be a truly Hong Kong airline and acted quickly to counter this through the share offer. Certainly it did not need the cash. The irony is that Dragonair now needs to claim it is British, while Cathay will probably have to go still further before 1997 if it is to protect its routes subsequently.

By contrast the airport problem seems less immediate. Public interest in the issue has waned since 1983, when the government dropped plans to flatten a small island off the north shore of Lantau Island and build runways and terminals there.

The project would have been vast, involving urban development on Lantau as well as surface transport to Kowloon and Hong Kong Island. The only alternative site is on muddy Deep Bay, which is already

close enough to the new Chinese city of Shenzhen to make other possibilities across the border worth considering.

That in turn would beg numerous questions about relations between the autonomous government of Hong Kong, the provincial government in Guangdong across the border and the Peking authorities. But the fact is that Shenzhen has already completed a feasibility study for an international airport, albeit 30km from the city, and Hong Kong is evidently as far away from getting a second airport as ever.

That said, no one in Hong Kong thinks that finance would be an insuperable problem, since Kai Tak would not be expected to continue in operation. Redevelopment of the airport and its environment would increase its value substantially, providing a powerful motive for action. Plainly, the second airport could be one of the hottest local issues of the 1990s.

Chris Sherwell

Rich rewards in power by the hour deals

Profile of Hong Kong Aircraft Engineering Co. (Haecco) by David Dodwell

WHEN British Airways decided to get and refurbish its fleet of Boeing 747 aircraft, it turned not to a UK company, but to Hong Kong Aircraft Engineering Company (Haecco), an aircraft maintenance company 7,000 miles across the globe.

Its 28 aircraft were stripped and refurbished inside, two exit doors were removed, and each aircraft was repainted in British Airways' new livery. The job was done in 13 days, and earned the Hong Kong group HK\$45m.

Haecco claims to be the world's

largest independent aircraft maintenance group. The claim is contentious, because it is in fact closely linked with Cathay Pacific, Hong Kong's de facto carrier. But there is no disputing Haecco's expansion.

Last year, the group earned an attributable profit of HK\$115.5m on business amounting to HK\$947m. Turnover has risen by more than 40 per cent in the past two years, with profits almost doubled.

Alongside British Airways, it has won a HK\$70m contract from United Airways of the US to provide maintenance and overhaul support for the six Lockheed TriStars taken over from Pan Am as part of the deal in which it has taken over all of Pan Am's Pacific routes.

A further HK\$24m contract has been won to modernise mainland China's fleet of short-haul Y7 and Y12 aircraft. This deal is expected eventually to involve 180 aircraft.



Graham Howat, chief executive of Haecco: last year the group earned HK\$115.5m on turnover amounting to HK\$947m.

Haecco was set up in 1960 to provide engineering and maintenance support for aircraft in the isolated but fast developing Far East. It fell under the wing of Britain's Swire group in 1975, and has since then shared Haecco's Pacific benefits that have come from exponential growth in the region's airline business.

As a matter of routine, it handles all the traffic movements through Hong Kong's busy Kai Tak airport, meeting emergency maintenance needs and providing routine servicing. Most important, however, are "base maintenance" contracts for a wide range of international carriers.

"We moved into heavy maintenance almost by osmosis," says Mr Graham Howat, the group's chief executive. A major breakthrough came in 1974 when Gulf Air asked Haecco to provide comprehensive maintenance contract. For Haecco, the idea of "power by the hour" was born. It agreed to meet every servicing need for Gulf Air's 11 TriStars, being paid a rate based on the number of hours each aircraft is in the air.

Since then, a number of similar contracts have provided Haecco with a stable base-load of work in what Graham Howat admits is one of the most "peaky" businesses in the world. Major long-term clients include Bangladesh Biman, Air Lanka, Air Nippon, Air Nauru and Royal Brunei Airlines. Occasional contracts come from carriers as diverse as Singapore Airlines, Transcorp, British Airways and even People Express.

A second catalyst for the group's development was Cathay Pacific's purchase of a fleet of TriStars. It has led to Haecco becoming a world leader in TriStar maintenance.

As Lockheed has stopped manufacturing TriStars, so major international airlines—

including Cathay Pacific—have begun to replace them with more modern aircraft, selling the secondhand TriStars to smaller national airlines mainly in the third world.

The result for Haecco is likely to involve more work rather than less up to the end of the century, since many of these smaller airlines lack the in-house maintenance capabilities that the major international carriers have. Haecco claims to have more than 60 per cent of the "loose" market in TriStar servicing.

From the wide bodied TriStar, the shift to Boeing 747s was a simple one, Graham Howat claims. Cathay Pacific's choice of Rolls Royce RB 211 engines for its entire fleet—Jumbos and TriStars alike—has given Haecco considerable expertise in maintenance of aircraft using this engine.

Even as small airlines acquire maintenance and servicing capabilities of their own, so Haecco retains an indispensable role in the region providing more complex maintenance needs—like vacuum braking spark erosion, plasma spray and aluminium Haecco's expertise providing "high-flow pneumatics"—the air conditioning and cabin pressurising systems essential for all aircraft—is also rare in the region.

The most recent quantum leap in Haecco's development is its joint venture with China's National Aero Technology Import Export Corporation. The

venture, called SCAT—South China Aero Technology—is likely to be the vehicle for most of the business sought by Haecco in mainland China.

To talk of prospects in China as gliding is no overstatement. The contract to refurbish the country's aged Y7 and Y12 fleets—most of the work is being done inside China in Xian and Harbin using kits and materials supplied by Haecco—is likely to be no more than a start as China's civil aviation industry plunges into a period of hectic growth.

New regional airlines are busy laying plans to buy their own fleets, while the aviation authorities in Peking have ordered a dizzying variety of aircraft.

"The Chinese Government has bought itself a product support nightmare," says Graham Howat. "It will nevertheless be a massive market for aircraft sales, and to some extent aircraft servicing. They are going to need expertise in maintenance and overhaul services for a very long time to come." Needless to say, SCAT hopes to be well placed to capitalise on this need.

Graham Howat jests that he has his senior Hong Kong Chinese staff that China is so important to the future of Haecco, and Haecco so important to China's airline industry, that future Chinese aviation ministers could be drawn from their midst. It may sound far fetched, but many a true word...

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In Hong Kong in 1985 Schrodgers Asia assisted all these major companies in their capital raising programmes

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To succeed in the complex arena of debt and equity capital raising, a bank must have excellent staff, superior knowledge of established financing structures, the capacity and skill to structure new structures and—perhaps most of all—the trust of all parties involved.

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Apart from their own in-house staff, they have behind them the full resources of the Schrodgers Group, which now has branches in fourteen countries, including all the major financial centres of the world.

Schrodgers Asia has fifteen years of experience in Hong Kong. Their fifteen years of offering the Territory's commercial sector a range of top-quality mortgage-banking services.

Schrodgers Asia was in the forefront of these activities, having been involved in more than 50% of the total amount of facilities arranged. Schrodgers Asia continued to be a leader in the field of equity capital raising being involved during the year in the issue of shares both by way of new and rights issues.

HONG KONG 11

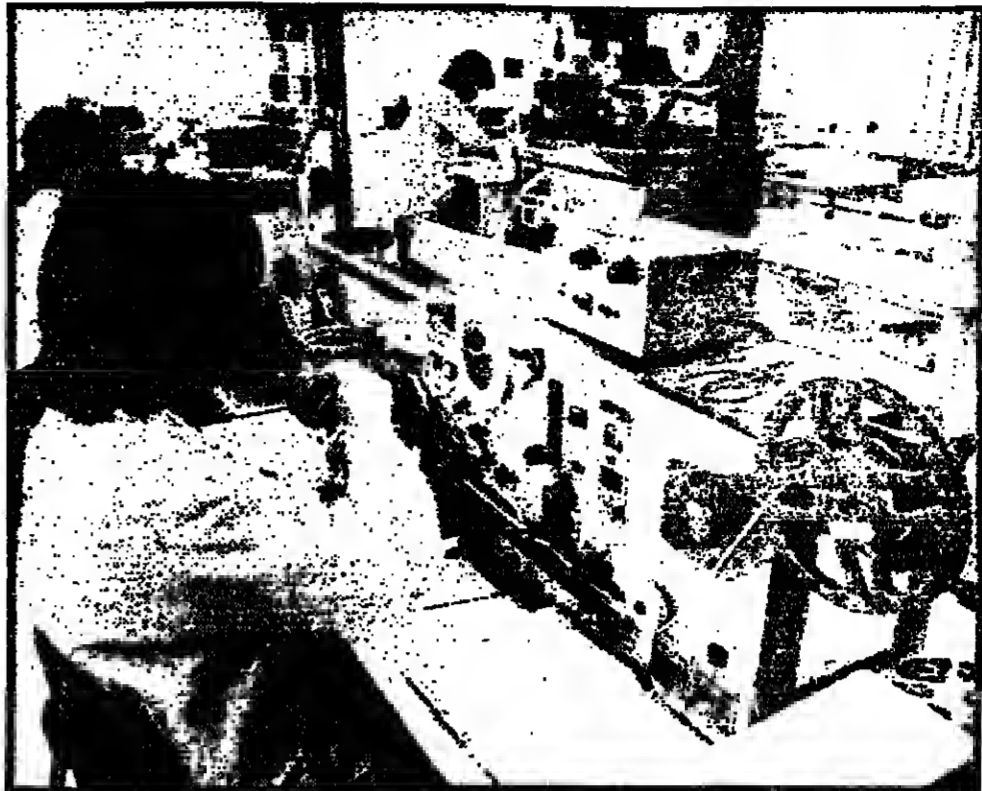
Electronics

The year the dominoes fell

DATA GENERAL, the US computer company, recently announced plans to close its Hong Kong factory with a loss of 250 jobs after 13 years' operation in the territory. This is the latest in a series of blows over the past 18 months that have shaken confidence in a sector once thought to be among the brightest and most promising in the economy. It involves the loss of one of a tiny group of Hong Kong-based electronics manufacturers which are capable of high-technology production as opposed to consumer or "fad" electronics—radios, toys and cheap watches—which account for 60 per cent of the local electronics output. Data General's withdrawal does not reflect unfavourably on Hong Kong. It is linked with wider problems for DG and for electronics manufacturers worldwide over the past 18 months. Mr Bill Wylie, the Australian who heads BSR International, recalls 1985 as "the year the dominoes fell."

At Lambda Technology, Mr Andrew Chung has learned a similar lesson. With 60 per cent of output accounted for by telephones and a further 30 per cent by watches, his company profited handsomely three years ago from the passing craze for novelty telephones and watches. Interest has now waned, with many customers disappointed by the slapdash quality of those early products. Substantial in-house research is now concentrating on more up-market models which appeal because of their reliability, styling, and range of functions. Two years ago China was seen as a potential passage for the local electronics industry. While manufacturers worldwide suffered as demand from the US went into a steep decline, Hong Kong was buoyed up by meteoric growth in demand for a wide range of consumer electronics. Nam Tai, for example, saw China account for nearly 35 per cent of its sales of calculators in 1984—putting it on a par with the US as a market. In addition, investments in joint ventures on the mainland involved in simple sub-assembly work enabled Hong Kong companies to cut labour costs at a time when it was becoming increasingly difficult to match wages paid to workers in Taiwan or South Korea. Today, Hong Kong's link with China appears more of a blight than a bonanza. Foreign exchange shortages have resulted in a slump in demand for electronic goods. Nam Tai has seen sales dwindle to little more than 10 per cent of output and this fall was an important factor in last year's slump in turnover. More important, it has become clear that while manufacturers in other countries were being forced to automate and upgrade, technological capabilities in order to survive, counterparts in Hong Kong had leaned back on a cushion—now punctured—that leaves them two years behind their competitors. "There was a gold rush into China that pre-empted any need to invest in up-to-date technology," said Mr Day. "Companies have estranged traditional buyers and now find themselves using machinery that can be four years out of date. In short, they have fallen

even further behind competitors overseas." "They are in trouble, but it doesn't mean they can't get out," says Mr Vincent Ng, an adviser on the electronics industry to Hong Kong's Vocational Training Council. He urges closer attention to sales and marketing and more investment in training high-calibre engineers, but he argues that as long as manufacturers recognize that they cannot produce "prime technology" their flexibility should ensure an important niche for the local industry. In free-enterprise Hong Kong the government finds itself in a quandary about how to help the industry. It is unwilling to provide specific investment incentives or concessions, seeing its own role as limited to providing an efficient infrastructure. It has provided HK\$50m for the automation of industry and is making plans for an integrated circuit design centre. Proposals for a venture capital fund have also been made because of complaints that local banks are unwilling to finance investment in manufacturing industry. The absence of specific incentives has led to complaints that overseas investment in electronics has suffered. Data General's withdrawal may be a good case in point. The government's response has been not to provide a range of incentives but to publicise more widely Hong Kong's more general attractions—low tax, minimal government intervention, excellent communications and a highly adaptable workforce. As a result, inward investment has risen over the past three years. Of 35 projects completed since 1983—worth HK\$336m—18 were agreed last year. Typical is a venture headed by Mr Allen Lee involving Ava Electronics in Hong Kong and Hercules of the US. Called Mica-Ava, the group has in the past month begun manufacturing copper-clad laminates for making basic printed circuit boards. An investment of US\$10m in a Hong Kong plant is balanced by similar investments making the same product in Guangdong and Wuxi in mainland China. If 1985 was a bad year this year shows signs of being much better. There have been signs



One of the many electronics plants in Hong Kong

David Dodwell

Follower of consumer trends

Profile of Applied Electronics by David Dodwell

RAYMOND HUNG, founder chairman of Applied Electronics, could once have boasted of heading one of the highest technology enterprises in Hong Kong. Today the cornerstone of his business is toys. "We can't afford to depend on the computer assembly business," he says with a look that could pass for embarrassment. "It just doesn't provide enough work and there are still too many bankruptcies." This experience indicates both the strengths and weaknesses of the Hong Kong electronics manufacturer. The absence of own-technology products, and concentration on OEM assembly for clients in the US, makes them extremely vulnerable as the market has turned sour for the US giants. At the same time the flexibility for which Hong Kong businessmen are well known has thrown Applied Electronics into electronic toy manufacture

when many companies in other countries simply have withered and died. It is a sign of renewed confidence that Mr Hung has, in the past three months, opted to float 25 per cent of the shares in Applied Electronics. Since a spate of public offerings from electronics companies in 1983—many of them highly opportunistic and pitched just before the world market went into recession—such flotations have been few indeed. In 1983, 80 per cent of his company's output was floppy discs and other computer components for big customers like IBM, Wang and Olivetti. "It just doesn't provide enough work and there are still too many bankruptcies." This experience indicates both the strengths and weaknesses of the Hong Kong electronics manufacturer. The absence of own-technology products, and concentration on OEM assembly for clients in the US, makes them extremely vulnerable as the market has turned sour for the US giants. At the same time the flexibility for which Hong Kong businessmen are well known has thrown Applied Electronics into electronic toy manufacture

Just 350 workers now remain in his three-floor factory in Aberdeen, on the south side of Hong Kong island. Printed circuit board sub-assembly has been transferred to Pingwu and Huangliang in the nearby Guangdong province of China. This month Huangliang will also begin manufacturing the dolls that will be "talking" to thousands of children, next Christmas. A third factory making plastic toys and figures will be at work in China by October. "Low-cost manufacture in China has been important to us," Mr Hung says. "Without it we would be struggling to stay competitive with Korea or Taiwan. But if we were to rely on Chinese management we would be finished. They supply workers straight from high school and we provide everything else—raw materials, assembly lines, testing equipment, and up to 30 Hong Kong staff for each factory. It takes Mr Hung three months to train his mainland Chinese workers, compared with a month in Hong Kong. Their productivity is about 70 per cent of that of a Hong Kong worker after three months, and about 90 per cent after six months.

"If a product line continues for a year then the Chinese plant becomes more productive, simply because the turnover of the workforce is minimal," he says. Another advantage of production in China is that low labour costs mean he can keep workers on the payroll during the quiet months between busy seasons. Higher costs in Hong Kong would make this impossible at his Aberdeen factory. "If you had asked me in 1983 which way we were heading I would have said we were moving up into higher technology and abandoning the consumer electronics end of the market," Mr Hung recalls. "With 80 per cent of our output in things like floppy discs and personal computers, and with heavyweight customers like IBM and Wang, we thought we had every right to be confident." By 1985, however, the worst year in the history of high technology industry, both IBM and Wang had stopped their orders and were producing only in the US. "We are still manufacturing for Commodore, but they are financially very weak..."

Stock Market

Four into one can go

"WHEN PEOPLE congratulate me about the merger of the four stock exchanges, I don't need it," Mr Ronald Li Pook Shin, chairman of the Hong Kong Stock Exchange, is fond of such quotably picturesque analogies. This one describes his reaction to the widespread satisfaction at the early days of operation of the new Stock Exchange after years of struggle and disension in its establishment. Until this year Hong Kong had four stock exchanges: the Hong Kong, Far East, Kam Ngan and Kwong. Now it has one, located at the foot of the spanking new Exchange Square complex and still to be officially inaugurated with great ceremony this autumn. Bringing the four together was not an easy task either for the authorities or for the parties themselves. At the end of the major dispute was about the HK\$70m computer system which is at the exchange's heart. The debate is continuing, but at least everyone is agreed that, as far as it goes, the system works. Hence the unwelcome congratulations to Mr Li. The system, created by Jardine Logica, is different from other computer-oriented methods being introduced on other stock exchanges around the world. Though it is sophisticated, it does not follow the trend towards off-floor trading, nor to automated execution. Rather, it replicates previous market methods, essentially putting the former chalk-board on screen. Of the 800 member firms of the old exchanges, 678 have a place on the new floor. The rows of trading desks are ranged around a central floor, but unlike every other exchange the floor is empty. There is provision for traders to break on to the floor and trade there only if the computer system is unable for some reason to handle incoming bid and offered prices. One such occasion was the first day of trading of Cathay Pacific shares in May, when report business was done, virtually all in that company's shares. Bid and offered prices are inserted into the computer system by brokers at their terminals on the floor. Other brokers see these prices, identified by the inserting firm's number, on the screen. They then telephone the broker concerned if they want to do business, with the call going from booth to booth on the floor and being tape-recorded in every case. In order to do business, therefore, brokers must be physically on the floor and transact over the phone with another broker on the floor. Provided one accepts these

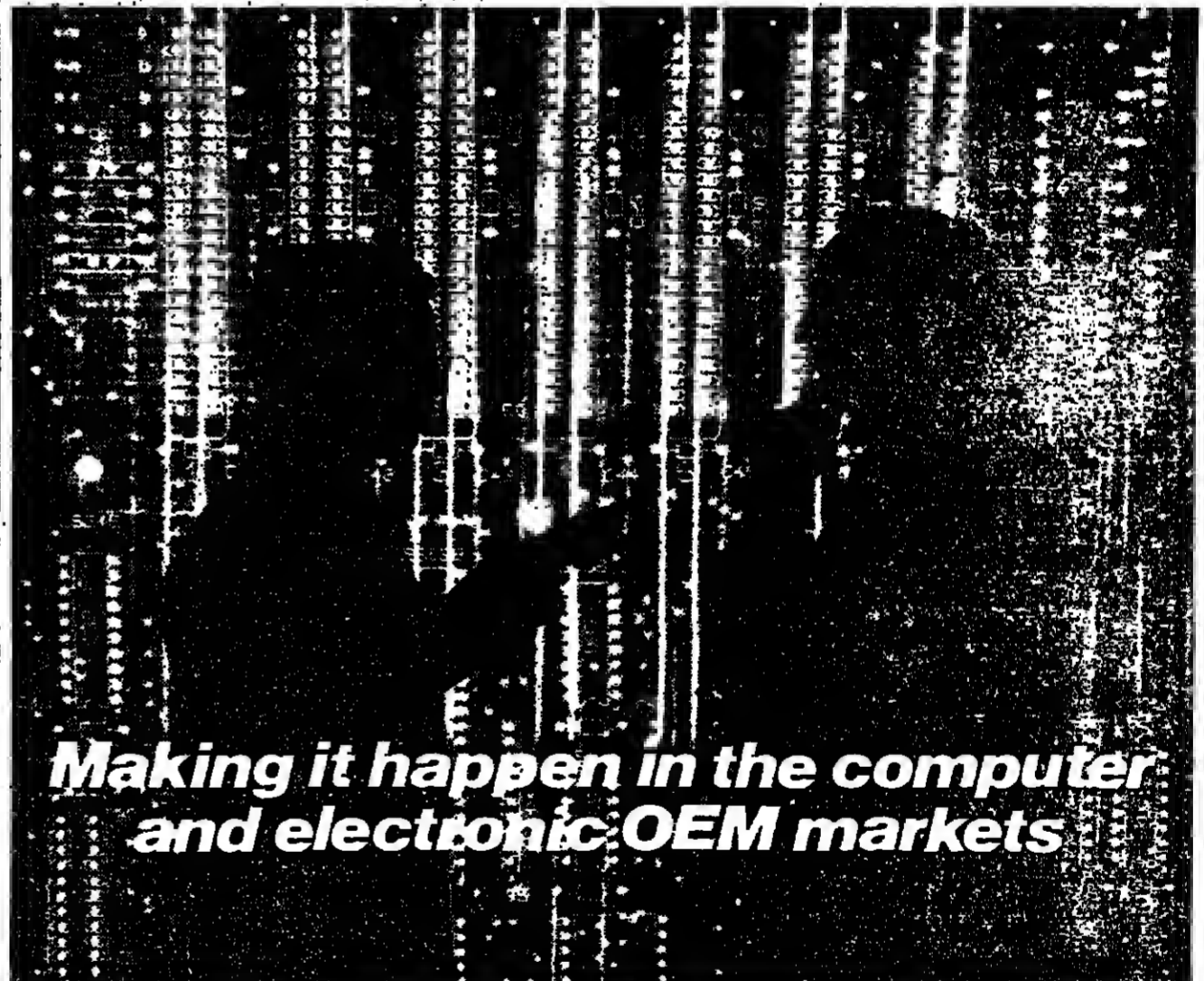


A future for commodities

AFTER the scandals which befell the commodities exchange established in 1976, its reformation as the Hong Kong Futures Exchange was no mean feat. Mr Kin Chan, its enthusiastic chairman, even had an uphill task in the late stages when, with all other hurdles successfully negotiated, he sought commitments from new potential members. Since trading in Hong Kong Index futures got under way in early May, however, he has good reason to feel encouraged. Volume has been getting up to about 2,500 contracts a day, each worth about HK\$300,000. Traders on the floor, from 50 member firms, now business matching Mr Chan's. The trading method is open outcry, with the assistance of a

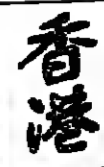
floor manager. Interplay between the stock and futures markets is fostered by a display of futures prices on the floor of the stock exchange, and by the constantly updated listing of the Hang Seng Index appearing on the futures exchange screens. Mr Chan's top priority is to develop local liquidity in the stock index contract before attempting contracts with more international appeal. So far a healthy mix of interest appears evident, with the presence of brokers such as Sun Hang Kai suggesting small investor orders and the presence of brokers such as James Copol indicating institutional interest. In the longer run, potential contracts include currencies, interest rates and commodities. Mr Chan sees options, where the

buyer pays the whole premium up-front, as potentially of great interest to Hong Kong investors. Among commodities, emphasis will be placed on those produced in China, which has already displayed an interest in futures markets. The exchange is considering expanding the delivery points for its soybean contract and adding cotton and corn futures. With the Hong Kong dollar pegged to the US dollar, there is no potential for local currency futures, but Hong Kong's position as a foreign exchange trading centre could produce interest in Deutsche mark and yen futures against the US dollar. There could also be scope for Hong Kong dollar and Euro-dollar interest rate contracts. another point of dispute before the exchange's foundation, should be completely revamped. Also possible on the agenda is the creation of a "second market" list of stocks for up-and-coming companies. For the moment, however, the effect of the new exchange—to which the whole market is still in the process of getting accustomed—has been to increase volume, though this may be because all bargains are of necessity now being reported. It has also meant that floor brokers have less need of muscle to shoulder their way to the price board and more need of a delicate touch on the keyboard. Alexander Nicoll



A good idea is one thing. Making it a reality is something else. Working hand in hand with original equipment manufacturers (OEMs), BSR translates innovative ideas into an expanding number of new high technology computer related products. In over 17 factories around the world, BSR's on-going commitment to the manufacture of state-of-the-art products and research and development maintains our position at the forefront of creative electronics. The range of specialised BSR products include: - Power conversion units for computers, scientific instruments, telecommunications; a wide range of switching power supplies and DC to DC converters. - Radio frequency products like micro-crystal-controlled modulators for broadcast and cable television, household satellite tuners. - Computer peripheral equipment, single and multi-layer printed circuit boards (PCBs), colour and monochrome computer monitors. - Advanced consumer audio/video products such as combination music centres, sound and video enhancers and stereo colour television sets. - Electronic information display systems for internal and external locations, by day or night. - Custom software packages (for both single chip and micro processors) for engineering and manufacturing applications. Making products that make sense to the OEM is what BSR is all about.

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Banking

New regulations aim to end sloppy procedures

POWERFUL FORCES are sweeping across Hong Kong's banks, challenging even the most nimble of bankers. The series of failures of local banks over the past two years have, if anything, left the authorities more convinced, rather than less, of the health of the banking system.

when major banks are suffering from soured loans to the ship-owning community. Banks' traditional five-percentage-point margin between lending and borrowing rates, protected by a deposit rate cartel, is being chipped away from all sides.



William Purves who takes over at the Hong Kong Bank later this year faces important strategic decisions. Right inside the new headquarters of the Hong Kong and Shanghai Banking Corporation



THE HONGKONG HILTON. A CUT ABOVE THE REST. If there is one special quality that gives us the edge over other hotels, it is our 22 years of experience.

WING LUNG BANK LTD. THE WORLDWIDE trend to securitisation of debt has not passed Hong Kong by. International banks are factoring in the drastic shrinkage in the Asian syndicated loan market for which the territory has been a centre.

Although there are hopes for a sharp rise in this business, a cautious prognosis is probably more realistic. China drives a very hard bargain on the lending business which does come the way of Hong Kong banks.

Retail business has been our basic activity until now, Mr Wu says. We have to increase our branch network, but compared with the Hongkong Bank we are still lagging behind.

The group has, however, been spending heavily on electronic banking and appears well-placed in this field. The squeeze on domestic margins is made all the tighter by current pressure on the Interest Rate Agreement under which the Association of Banks sets rates for all deposits below HK\$500,000.

Other bankers are surprised by this explanation, arguing that if a monetary tool were required a less crude one could be devised. But they do generally expect the core of the agreement to be retained, even while investment vehicles providing higher than the agreed returns are allowed.

Banks in trouble in the past year: Overseas Trust Bank failed spectacularly in 1985 and, with its subsidiary Hongkong Industrial and Commercial Bank was taken over by the Government.

Capital Markets

Securitisation of debt reveals innovative skills

A major financial centre depends to a large extent on the growth of China business (of dollars who had no actual need for the currency).

The key challenge for the merchant banks involved is now to develop a full range of end-investors and a sufficiently deep secondary market. This is the direction of most current efforts.



The foreign dealing room at the Hong Kong and Shanghai Bank encouraged to enter the market if there were a rating system which removed the need for individual credit assessment.



the TWO CITIES Hong Kong & London partners in financial services Hong Kong Government Office, 6 Grafton Street, London W1

Alexander Nicoll



Indian Community

Why the merchant class feel aggrieved

IT WAS perhaps inevitable that Britain's agreement with China on the future of Hong Kong would not please everybody. But the territory's Indian community is more than merely disappointed with the UK. It feels utterly let down.

The issue is citizenship. Of Hong Kong's estimated 11,500-strong ethnic minorities who have "British Dependent Territory Citizenship," 6,600 are ethnic Indians and the rest are of Portuguese or Eurasian origin. The ethnic Indians see themselves as British and want the right to live to Britain after 1997.

Last month their well-organised, vocal and effective campaign for this right, which received support from Hong Kong's Legislative Council and from Peking, was finally defeated in the UK Parliament. The Indians are now facing a more acute problem than the Hong Kong Chinese, and must decide whether to stay or leave.

Their decision is important to Hong Kong because the 30,000-strong Indian community, which also includes citizens of India and Pakistan, is widely believed to control about 10 per cent of the country's exports by value. In a place with a 5.4m population, 98 per cent of it Chinese, that is out of all proportion to the Indian community's size.

Widely regarded as hard-working, diligent and prosperous, the Indians are not recent arrivals. When the British took over Hong Kong in 1841 they did so with 2,700 Indian troops. Indian merchants, some of whom had already followed the opium trade to China, quickly came to capitalise on the settlement of Hong Kong.

Thus two of the earliest trading companies were Indian, the first bank to be established was a branch of the Oriental Bank of Calcutta, and it was two Indians who founded a stock exchange. When the Hongkong and Shanghai Bank was established three of its 13 founders were Indians; and it was an Indian who started the Star Ferry service between Hong Kong Island and Kowloon. Initially most of the Indian traders were Parsees. Then came Gujaratis and Marwaris. In this century, however, the

Indian merchant class has come to be dominated by Sindhis, from the southern province of what is now Pakistan. Using family, clan and kinship connections, they dominate trade between China and the Middle East and Africa which goes through Hong Kong.

Beyond all this, Britain recruited Indians for its administrative needs in Hong Kong—in defence, in the police force, in the postal services and to education. Many of its own British officials were also drawn from the British civil service in India, Burma and the Straits Settlements.

With the relentless approach of 1997, however, has come a reckoning—or rather three years of agonising for London and for Hong Kong's Indians. Under the Sino-British agreement returning Hong Kong's sovereignty to China the status of British Dependent Territory Citizens for people from Hong Kong will end. But whereas the ethnic Chinese will become Chinese nationals, the ethnic minorities are to become "British Nationals (Overseas)."

Unlike the inhabitants of a country becoming independent, these ethnic minorities have been given no chance of becoming citizens of the new country. They will have what are called BNO passports but no automatic right to live in Hong Kong, and none elsewhere in the British Empire to order to seek it.

As a form of compromise to deal with this apparent *de facto* statelessness, Britain and China reached an understanding in April whereby China says it will, when necessary, state to third countries that holders of BNO passports will be able to return to the Special Administrative Region of Hong Kong.

Under this arrangement the BNO passport will contain a UK endorsement, agreed with Peking, to the effect that the holder has a Hong Kong identity card number which in turn states that the holder has the right of abode in Hong Kong.

At the same time Britain has also stated that if any British national were to come under pressure to leave Hong Kong "we would expect the government of the day to consider sym-

pathetically the ease for admission to the UK."

This declaration, made by Mr Douglas Hurd, the UK Home Secretary, falls short of what the Indian community wants and what Hong Kong's Legislative Council recommended on the subject before it came to the House of Commons as a draft Order-in-Council at the end of last year.

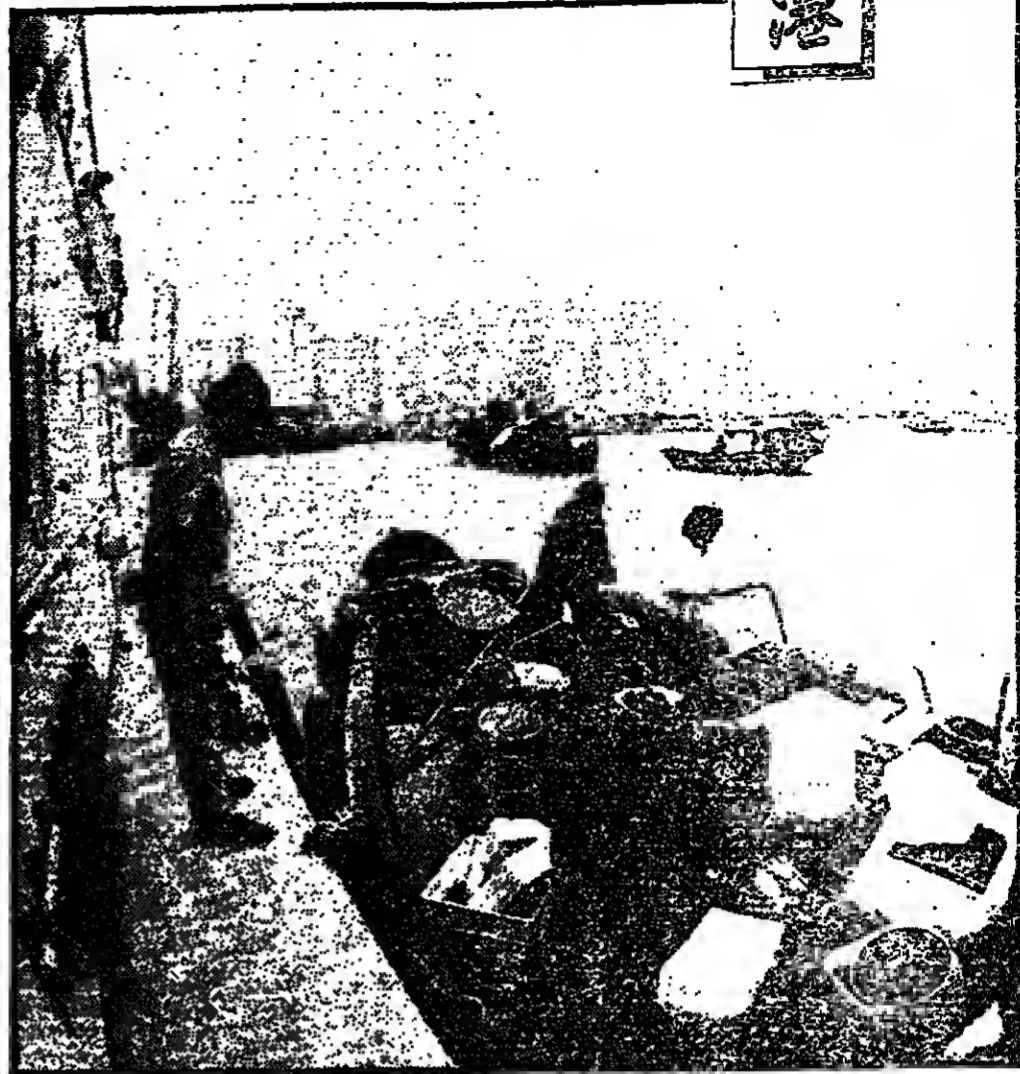
Britain acceded to two other Legco recommendations: visa-free entry for Hong Kong people visiting Britain on business or at leisure, and citizenship for Hong Kong survivors of Britain's armed forces who fought in the 1939-45 war.

But Britain rejected citizenship for members of the Indian community, apparently because of the precedent it would set at home on an obviously sensitive issue. At one point Britain thought such a move would also show a lack of confidence on its part in the Sino-British agreement. But Peking and the Hong Kong Chinese community disabused it of this by indicating that the Indian community sought to be given UK citizenship.

Some long-time Hong Kong residents say cynically that Britain has no obligation to the Indian community. They argue that the Indians have done as well out of Hong Kong as the British have and could easily find citizenship elsewhere—in Britain or India—if they were only prepared to forego their profits in Hong Kong and leave.

The Indians say their connection with Hong Kong has always been on the basis that it is British rather than Chinese. They came because of the British and the supported British rule. If the purpose of the Sino-UK agreement is to preserve stability and prosperity, they say, it looks likely in practice to drive them away and that would be harmful rather than helpful to Hong Kong's economic well-being.

Where the fight goes from here is unclear. The British Labour Party has indicated that if it is voted into office it would review sympathetically the Indians' claims, but the Indians felt that they cannot count on



Left: a police search during a patrol at Wanchai on Hong Kong Island and a harbour police launch on duty in Hong Kong Harbour

The Police

Transition pains in the strong arm

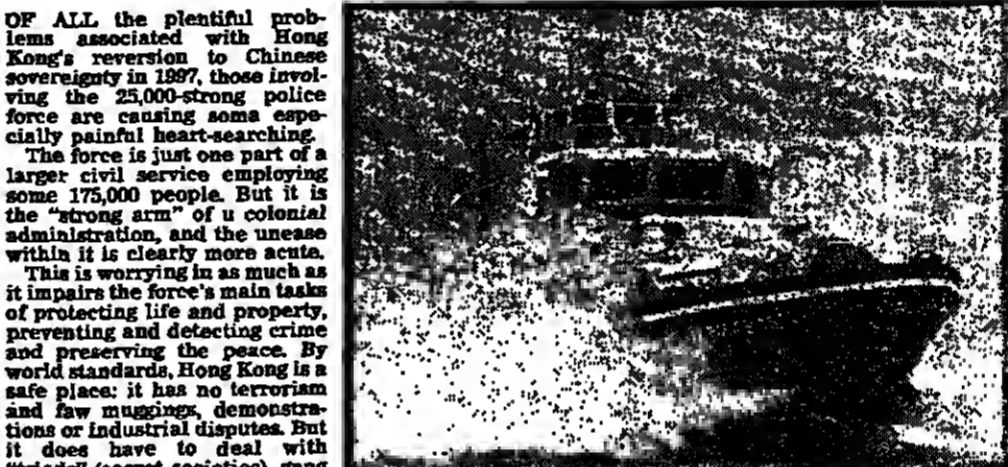
THIS, if nothing else, the Indian community therefore needs to establish the precise circumstances under which Mr Hurd's promise might be redeemed.

This would not be an easy task and might not yield much. After all, the present British administration in Hong Kong is already returning to China people fighting to escape across its borders into the territory. What would count as "persecution" against Indians in the run-up to 1997, and afterwards?

The other more likely possibility is that the Indians actually apply for Chinese citizenship. There is good reason to believe that Peking would accept them. It is not saying as much right now because that might hurt the Indians' chances of winning British citizenship, which they would plainly prefer.

It would also get London off an awkward hook, and that is something which can come much later.

Chris Sherwell



A high-speed patrol boat on duty in the harbour in fight against narcotics and illegal immigrants

for, the 650 expatriate inspectors have a financial, as much as a career, decision weighing in their minds. Until last year, they had a choice of joining the force on "permanent and pensionable" terms or on a three-year contract which offered a gratuity at its conclusion worth 25 per cent of earnings.

Now, following the Sino-British agreement, all recruitment is on contract, and those who were already in the force at the time of the change have to choose whether to stay on contract or transfer to permanent and pensionable terms.

Currently about 500 of the 650 are on contract, and the deadline for choosing is September. Their choice does not affect their promotion prospects, but those who stay on contracts face the possibility that these will not be renewed on expiry. Before deciding whether to change to pensionable terms, the inspectors also need to know details of compensation, should their jobs be localised.

Details of this are due from Whitehall shortly, at which point the inspectors' only concern will be whether the post-1997 Hong Kong administration meets its obligations. Britain refuses to offer any guarantee on this, precisely because it might encourage the new government not to shoulder its responsibilities.

According to the expatriate inspectors, some of their number have already left Hong Kong, forfeiting all their pension rights, because they feel it is better to look for another job now rather than later. The Government, meanwhile, is considering a plan to allow departing officers to freeze their pension rights until they are 60, but this is not settled.

Whatever happens, the crucial aim is to preserve morale within the force. Although the police associations tend to doubt it, Mr Raymond Anning, the Commissioner of Police, feels this is not currently a problem. He also has no doubts that the local talent exists to ensure an effective transition without hardship or unfairness. The next few years will tell.

Chris Sherwell

A FINANCIAL TIMES SURVEY

HONG KONG AS A FINANCIAL CENTRE

Publication date: 1 October 1986
Copy date: 10 September 1986

The Financial Times proposes to publish a survey on Hong Kong as a Financial Centre on 1 October 1986. The survey will cover the inauguration of a new unified stock exchange, focus on Hong Kong's likely future role as a financial centre and describes how the Territory is striving to develop as a sophisticated services centre, with China in mind as a main customer. Will investor confidence survive the fast-approaching change in Hong Kong's political status? What effect will be felt from the rapid growth of Tokyo's markets, and from the poor economic outlook for several key South-East Asian economies?

For a copy of the synopsis and more information on advertising rates, contact:

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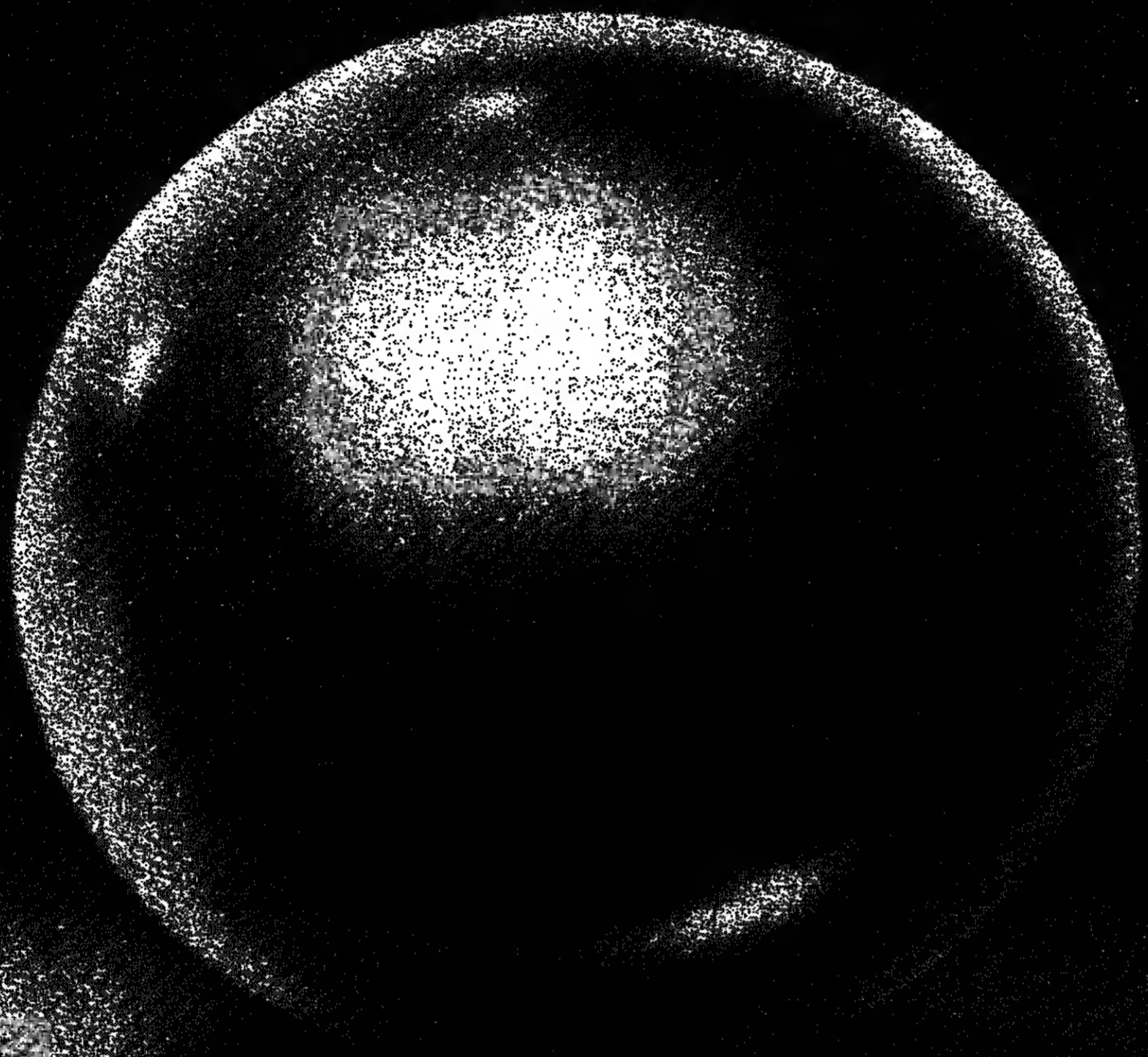
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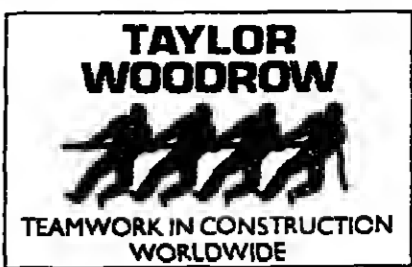
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Morgan Grenfell and Thames TV issues heavily oversubscribed

BY ALICE RAWSTHORN IN LONDON

BRITAIN'S new issues market received a long-awaited stimulus yesterday when the offer for sale of Thames Television, the commercial TV station serving London and the south-east of England, attracted £272.8m and was almost 28 times oversubscribed. The tender for sale of Morgan Grenfell, the banking and securities group, was also heavily oversubscribed.

Thames received 102,628 applications for 459,39m shares at 190p each. In the flotation, which valued Thames at £31.2m (\$36m) about 17m shares were released, representing 35.5 per cent of Thames's equity.

The issue attracted extraordinarily high interest from "stags" or multiple applicants. Thames's merchant bank, County, said it had received out "literally hundreds" of multiple applications from the thousands of forms sent in.

In the weeks before the flotation, Thames mounted an ambitious advertising campaign to encourage its viewers to apply for shares in the company. County said some 27,000 applications were received for the minimum allocation of 200 shares, although almost half the £272.8m came from applications for more than 100,000 shares.

"We received a complete mixture of applications from investment institutions such as the insurance

US bid ruling leaves soft drinks battle fizzing

William Hall charts the growing market dominated by Coca-Cola and PepsiCo

"THESE mergers were so outrageous and so harmful to consumers that even the Reagan Administration realised it had to oppose them," said one leading US politician last week. Many Americans would agree, but beyond that there is little consensus about what may happen next in the fast growing US soft drinks business.

Ever since PepsiCo announced its \$300m bid for Seven-Up, and Coca-Cola replied with its \$470m bid for Dr Pepper at the start of the year, the soft drinks business has been in turmoil.

It is most unlikely that the Federal Trade Commission's decision to oppose the deals is going to restore peace in the battle for control of the \$400m-a-year industry.

US soft drink sales have been growing at a healthy 5 per cent a year and over half of the sales are made by two mega-brand companies, Coca-Cola and PepsiCo. Coca-Cola, which has a stock market capitalisation of \$15.5bn holds 39 per cent of the US soft drinks market, while PepsiCo, which is capitalised at \$9.1bn, has a 29 per cent share.

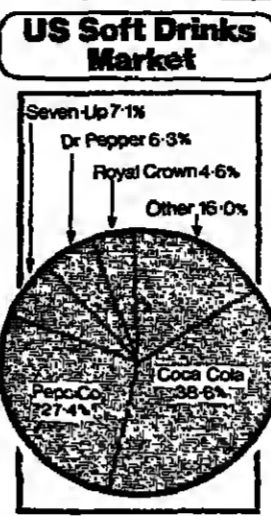
Until now, the soft drinks business has not been the sort of place

for the little guy. Despite engaging in the marketing equivalent of open warfare for years, Coca-Cola and PepsiCo have both been doing very well.

PepsiCo has been increasing its market share in the US, partly at the expense of Coca-Cola's flagship

brand, but Coca-Cola has a much higher overseas business than PepsiCo and has been able to offset sluggish sales of its traditional Coca-Cola brand with a wave of new products such as Sprite, diet Coca-Cola and cherry Coca-Cola.

The key to success in soft drinks



hold on the companies which battle their products and this in turn makes it increasingly difficult for smaller soft drink companies to break into the marketplace in a big way.

Seven-Up is a prime example. It has been owned for some time by Philip Morris, the tobacco and consumer goods conglomerate which is no slouch when it comes to marketing skills. Philip Morris is bigger than Coca-Cola and has the sort of financial muscle which should have enabled Seven-Up to challenge the grip of Coca-Cola and PepsiCo.

Despite its well known brand name, Seven-Up has not been a successful member of the Philip Morris stable. It is experiencing increasing difficulty holding on to its 7 per cent market share in the face of competition from such products as Coca-Cola's Sprite. Philip Morris is going ahead with plans to find a new buyer for Seven-Up to replace Coca-Cola.

PepsiCo says it is still interested in buying Seven-Up's international operations, which would presumably not upset the US Government, and would enable it to strengthen its international business.

Meanwhile, Coca-Cola said it intended to fight the Federal Trade Commission decision to oppose its takeover of Dr Pepper, which has surprised some Wall Street analysts who thought that the main reason Coca-Cola launched its bid was to avenge PepsiCo's efforts to win Seven-Up. Yesterday Dr Pepper indicated that it would join Coca-Cola in opposing the FTC decision.

Dr Pepper was taken private through a management buy-out in 1984 organised by Forstmann Little, a New York firm which specialises in leveraged deals.

Among possible overseas buyers, Cadbury Schweppes is often mentioned.

Mr Jesse Meyers, editor of the widely quoted *Beverage Digest*, says there is going to be a "whirlwind of interest" with many of companies in the US and abroad "justing after the possibility of taking over Seven-Up or Dr Pepper."

Among possible candidates in North America are Anheuser-Busch, the biggest US beer producer, Procter & Gamble, the detergent and soap goods giant, and Seagram, the international beverage group.

Singleton group buys Dallas Times Herald

BY PAUL TAYLOR IN NEW YORK

TIMES MIRROR, the Los Angeles-based newspaper group, yesterday agreed to sell the Dallas Times Herald to a company led by Mr William Dean Singleton, a Texas-born newspaper publisher, for \$110m in cash and paper.

Mr Robert Erburu, chairman, president and chief executive of Times Mirror, said the group had decided to sell the title because "its sale at this time is consistent with our corporate strategy and is in the best long-term future of the Times Herald." Times Mirror, which recently agreed to buy the Baltimore Sun newspapers from A.S. Abell for \$600m, also owns the Los Angeles Times, New York's *Newsday* newspaper, papers in Hartford, Connecticut and Denver, Colorado, together with extensive television interests. Last year the group produced net profits of \$217.8m on sales of almost \$3ba.

The Los Angeles-based group

Telefonica revenue and earnings rise

BY DAVID WHITE IN MADRID

COMPANIA Telefonica Nacional de Espana, Spain's 47 per cent state-controlled telecommunications company, which last year gained stock market listings in London, Paris, Frankfurt and Tokyo, yesterday announced a 20 per cent increase in its 1985 net profit to Pta 38,15bn (\$275m).

Total revenue for the year was 12.6 per cent up at Pta 429.2bn.

The company, which is currently considering a New York listing as the last stage of its move on to international stock exchanges, is proposing to repeat the same total dividend of 11 per cent on capital which was increased by 12.5 per cent during the year to Pta 360.5bn. Share capital has since been further increased to Pta 400.5bn.

Mr Luis Solana, chairman, said Telefonica had succeeded in virtually stabilising its financial costs,

which rose by 3 per cent to Pta 80.07m after soaring in recent years by close to 20 per cent a year.

He said the company's foreign debt, which stood at Pta 213bn in 1983, would be down to Pta 100bn by the end of this year. The company last year made early repayments of Pta 28.4bn, reducing the burden of foreign debt as a proportion of total liabilities from 14 per cent to 11 per cent. At the same time, it repaid some of its foreign credits with new debt at lower interest rates and with longer maturities.

Investment, which rose at a relatively modest rate of 7 per cent to Pta 187.9bn, partly because of delays in delivery of new telephone exchanges, was two-thirds self-financed, reflecting a progressive increase in Telefonica's own financing capacity over the last four years.

Suchard buys control of bank

BY JOHN WICKS IN ZURICH

JACOBS-SUCHARD, the Swiss coffee and chocolate group, has acquired a controlling interest in Ibero-America Bank.

The Zurich company had already held a minority stake in the German bank, which at the end of last

year had balance-sheet assets of DM 453m (\$203m) and annual earnings of DM 2m. The new transaction requires final approval from the German central authorities.

Ibero-America is a specialist in financing Latin American trade

AMI suffers 59% fall in quarterly income

BY OUR NEW YORK STAFF

AMERICAN Medical International (AMI), which claims to have founded the investor-owned hospital industry in the US, yesterday reported a 59 per cent fall in third quarter net income to \$21.5m, or 25 cents a share, despite a 30 per cent rise in gross revenue to \$307m.

Mr Walter L. Weisman, AMI's chief executive, said: "The message behind our record revenues and our declining earnings is clear: we are not managing our costs effectively." He said the fact that other major health care industry were facing writedowns, cost escalations and earnings declines. "Intensifies our

own determination to reverse these negative trends at AMI as forcefully and rapidly as possible."

Mr Weisman said AMI's senior management team had been "coalesced and revitalised" in recent weeks. The company had taken the initial steps to implement "the most significant cost-reduction programme in the company's history."

He said: "In the final analysis, I believe the pressures that the health care industry has faced over recent years will result in leaner, more efficient companies to the benefit of shareholders and consumers." AMI's shares slipped 54 to \$17 in early trading yesterday.

IRI chairman favours Ford-Alfa merger plan

BY ALAN FRIEDMAN IN MILAN

PROF Romano Prodi, chairman of Italy's IRI state holding group which owns the Alfa Romeo car company, says the prospect of a takeover of Alfa by Ford of the US is "the most advantageous" proposal.

In his first public reaction to the proposal, Prof Prodi listed four reasons why he wanted to go ahead with the sale of financially troubled Alfa Romeo to Ford.

Prof Prodi's comments come two weeks after a row broke out between IRI and Fiat, Italy's biggest private sector group which spelled out its own plan for Alfa.

The IRI chairman said a deal with Ford would keep Alfa together

as a corporate unit. It would also ensure maximum use of Alfa's productive capacity and be "less risky and less costly" for Alfa's parent.

Prof Prodi stressed yesterday that a final decision on the matter would have to wait until July 21 when Alfa and Ford conclude 60 days of technical feasibility talks. Last month Ford and Alfa announced the start of these talks and the prospect of Ford eventually taking majority control of Alfa.

Fiat, whose own car-merger talks with Ford of Europe broke down last autumn, says its plan for Alfa would "preserve the integrity and identity" of the state-owned car maker.

InterFirst warns of \$285m setback

BY OUR NEW YORK STAFF

INTERFIRST, the big Texas bank which has been hit by the collapse in oil and gas prices, has announced that it expects to lose as much as \$285m in this second quarter because of the need to make provisions of up to \$363m on troubled loans. It also said that it would be unable to pay cash dividends for the foreseeable future.

The news is the latest sign of the serious financial trouble facing several major banks in the US oil

sector and is bound to increase awareness in the financial markets about the impact of falling oil prices on the more troubled institutions.

InterFirst, with assets of \$19.8bn, first ran into problems in 1983 and has since been struggling to recover. It was barely profitable in the first quarter and recently slashed its dividend.

Mr Robert Stewart, InterFirst chief executive, said that the latest provisions reflected "the continuation of the low level of oil and gas prices, the weakness and overbuilt condition in certain real estate markets served by the company and the depressed state of the economy in Texas and the south west."

He said that "a material amount" of the increased loan loss provision related to \$80m of credit facilities made by InterFirst Bank Dallas to Mr Edwin L. Cox, a former director of the bank who sat on the credit committee at the time the loans

were negotiated. Mr Cox resigned from the bank on June 13.

Mr Stewart said that in spite of the second-quarter loss, which he expected to range between \$200m and \$285m, the group still retained primary capital of \$1.4bn, or 7.4 per cent of total assets.

After strong profits growth in the late 1970s and early 1980s, InterFirst reached net earnings of \$207m in 1982. It went \$172m into the red in 1983.

Italian insurer lifts profits 35 per cent

By Our Milan Correspondent

RIUNIONE Adriatica di Sicurtà (RAS), Italy's second largest insurance group, which is controlled by Allianz Versicherung of West Germany, yesterday unveiled a 35.1 per cent (\$18m) net profit for last year, an increase of 34.8 per cent on 1984 results.

RAS said its 1985 total premium income was up by 15.4 per cent to L3,061bn. The Milan-based insurer is raising L80bn through a rights issue in order to strengthen its life insurance division.

Insurance business from Italy last year came to L1,322bn or less than a third of total group premiums. Of the Italian total, some L897bn came from accident insurance and the balance from life.

Allianz acquired effective control of RAS in late 1984, at first taking a one-third stake. It now owns 43.3 per cent of RAS. The Allianz stake will rise to 51 per cent in the next year or so. About 40 per cent of RAS shares are held on the Milan bourse.

● La Fondiaria, the Florence-based insurance company which is controlled by Montedison, said yesterday that its 1985 net profit rose by 44.1 per cent to L72bn. Total premium income at the end of last year stood at L555.5bn against L483.8bn in 1984. Montedison controls 25.11 per cent of La Fondiaria, one of Italy's richest insurers.

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27th June, 1986

Banca del Lavoro plans 49% share sale

By Alan Friedman in Milan
BANCA Nazionale del Lavoro (BNL), Italy's largest bank, has announced plans which will see up to 49 per cent of the state-owned institution's equity sold to investors in Italy and abroad. The timing and details of the share sale have yet to be decided.

Mr Nerio Nesi, BNL chairman, unveiled plans in Rome which would allow the bank to change its statute in order to go ahead with the privatisation offer. BNL is today 85.78 per cent owned by the Italian Treasury and the rest of the shares are also state-held.

Mr Giovanni Goria, Italy's Treasury Minister, gave his formal backing to the BNL partial privatisation plan. The Bank of Italy has also approved the move, which would keep state control at a minimum 51 per cent.

BNL has already sold more than 1,400bn (\$283m) of non-voting shares on the Milan bourse. However, this share sale, last December, did not dilute the Treasury's ownership of 85.78 per cent of voting equity.

BNL has 403 branches in Italy. Mr Nesi is one of Italy's most active and outspoken bankers. He is also a colourful figure on the Italian banking scene and has close ties to the Socialist Party of Prime Minister Mr Bettino Craxi.

Kredietbank

KREDIETBANK S.A. Luxembourg is a Luxembourg bank and not a Belgian bank as stated in yesterday's FT. The bank is 45 per cent owned by Almanig-Kredietbank Group of Belgium.

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Agent Bank: Morgan Guaranty Trust Company of New York London

NL Industries may sell part of chemicals unit to deter bids

BY WILLIAM HALL IN NEW YORK

NL INDUSTRIES, the embattled US oilfield services company, has rejected an unwelcome \$15 a share offer from Mr Harold Simmons, a Dallas financier, and announced plans to spin off to the public a \$130m stake in NL Chemicals, its most profitable operation.

The company said it had terminated an earlier self-tender offer for 7.5m shares which it launched to "enhance stockholder values" fol-

lowing an earlier hostile approach from Coniston Partners, a New York investor group. It did not rule out similar action in the future.

The termination of the self-tender offer was one of a series of moves announced by the company in an increasingly desperate battle to retain its independence. NL's board, in rejecting the Simmons offer, said that it believed "the inherent value of the company's compo-

nent businesses is significantly greater" than the \$15 a share being offered.

The company has filed a registration statement with the Securities and Exchange Commission for an initial public offering of 8.5m shares, or 18 per cent, in NL Chemicals, of which 2.5m shares are to be offered to overseas investors. The price range for the stock is between \$14 and \$17 a share.

Zale rejects third Peoples offer

BY BERNARD SIMON IN TORONTO

ZALE, the Dallas-based jewellery chain, has rebuffed a third bid for control by Peoples Jewellers of Toronto.

Zale's rejection of the latest \$502m offer brought an angry response from Mr Irving Gerstein, Peoples president, who said he was "appalled" that Zale's board had decided in less than an hour to deprive public shareholders of the opportunity to sell their stock at a

significant premium to market prices.

The latest offer by Peoples was \$42 in cash and \$4 in senior preferred stock for each Zale common share. Zale's shares have traded recently at about \$37 in New York.

Zale's board said that "the interests of all the shareholders will be best served under the present cir-

cumstances by the corporation remaining independent."

The main barrier to the takeover bid by Peoples is the controlling block of shares held by members of the founding Zale and Lipsky families. Mr Donald Zale, chairman, said that shareholders owning about 34 per cent of the company's shares had entered into a "strengthened agreement" to bar a merger with or sale to Peoples.

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Claims on banks	6,216	Liabilities to banks	5,721
DSL Bonds	407	Other liabilities	1,100
Unredeemed shares	1,100	Capital	250
Unredeemed shares (2000 interest free)	6,723		

It was a good year.

We strengthened our position again in 1985 in medium and long-term lending to companies, banks, the real estate market, the public sector and foreign clients. Our new lending commitments expanded by 29% to over DM 5 billion, while total assets rose by 8.8% to DM 35 billion.

We doubled the volume of lending to foreign borrowers, with aggregate disbursements expanding to almost DM 2 billion. Export financing increased by over 50%. Expanding into another good year remains our goal. With a strengthened capital base, a larger branch network and a larger staff to serve you even better.

DSL Bank

DSL Bank, Head Office: 53 Bonn 2, Kennedyallee 62-70, FRG, Telephone: (228) 889-0, Branches: Berlin, Frankfurt, Hamburg, Munich, Stuttgart.

INTERNATIONAL COMPANIES and FINANCE

Tisco to expand steelmaking capacity

By R. C. Murthy in Bombay

TATA IRON and Steel Company (Tisco), India's largest private sector company, plans to expand its steelmaking capacity to 3m tonnes from the present 2m tonnes a year.

The Indian government, which has in the past opposed the private sector expanding in steel, "is not averse in principle" to Tisco's plans, Mr Rishi Modya, Tisco's chairman, said yesterday.

Brother Industries interim earnings down by 52%

By YOKO SHIBATA IN TOKYO

BROTHER INDUSTRIES, the Japanese manufacturer of sewing machines and typewriters, reported a profit fall of more than half in the six months to May, due in part to exchange losses from the yen's steep appreciation.

Pre-tax profits fell 53.6 per cent to ¥3,99bn (\$22.2m) and net profits were down 52 per cent to ¥1,96bn, on turnover of ¥79.1bn, a fall of 11 per cent from a year ago.

In an attempt to limit the impact of the yen's rise, Brother has decided to start production of information equipment in the US, Mr Katsuji Kawashima, its president, announced yesterday.

Details are yet to be fixed, but the US plant is expected to provide a product range more oriented to local demands and not a mere extension of the company's domestic product line-up, Mr Kawashima said.

Brother Industries already manufactures in Britain, Brazil, Taiwan and South Korea. During the half year, the company was adversely hit by inventory adjustments on office machinery in the US and the imposition of 21 per cent anti-dumping duties on typewriter exports to Europe.

the growing market for Japanese language word processors, but here it has been involved in price cutting competition. Sales of information equipment, Brother's biggest business, showed a substantial drop of 18.6 per cent.

Brother has been moving into the growing market for Japanese language word processors, but here it has been involved in price cutting competition.

Oil project finance for Denison Mines

By Bernard Simon in Toronto

DENISON MINES, the Canadian energy, cement and potash producer, has refinanced a large portion of its debt and negotiated new loans to finance oil projects in Egypt and Italy.

Term facilities of C\$180m (US\$134m) and an operating credit line of C\$75m have been negotiated with two Canadian banks to replace and extend existing loans.

Mediobanca of Italy has provided L45bn to help finance Denison's 10 per cent interest in the first phase of the Vega field off the coast of Sicily.

The plunge in oil prices forced Denison to pass its quarterly dividend last month for the first time in 27 years.

First-half advance for Shiseido

By OUR TOKYO STAFF

SHISEIDO, Japan's leading cosmetics manufacturer, lifted pre-tax profits for the half-year to May by 5.9 per cent to ¥16,580bn (\$100m).

Net profits rose by 4 per cent to ¥6,580bn, on turnover of ¥164,230bn, an increase of 2.7 per cent from the previous year.

non-operating income, which more than offset a rise in advertising and other costs.

year to ¥32.4bn on sales of ¥340bn, up by 3.3 per cent.

BNP subsidiary sues James Capel

BNP South East Asia, a subsidiary of Banque Nationale de Paris, has filed a \$512.7m (US\$574m) suit against stockbroker James Capel (Far East) and Mr Manharlal Gathani, a director of Ambassador Hotel, according to Singapore High Court officials.

Mr Gathani is alleged to have failed to repay a loan of \$11.4m plus interest which was made last June for the purchase of 1.9m Ambassador Hotel shares at \$80 each.

with James Capel to buy back the shares at \$86.75 each this month as security for the loan.



TOTAL COMPAGNIE FRANÇAISE DES PÉTROLES IN 1985 Annual Shareholders' Meeting of June 20, 1986

The Ordinary General Shareholders' Meeting of TOTAL CFP, held on June 20, 1986 with Mr Francois-Xavier ORTOLL, Chairman presiding, approved the accounts for 1985. All the resolutions were adopted.

In his address, the Chairman, without wishing to prejudge the consolidated results for the year as a whole, noted that as far as the first half was concerned, cash flow and economic performance would show a substantial increase.

With regard to the second half, results will clearly depend on variations in crude prices, which are as ever an unknown factor.

The Chairman went on to stress that the Group possessed the resources and experience not only to confront the oil "counter-shock" but also, if possible, to use it as a means for further development.

Financial performance

1985 in brief

Activities

The year saw: an increase in total liftings (49 million tons of oil; 5.7 billion m³ of gas); development of the Group's international trading position; encouraging results in exploration, notably in France; the merging of the refining and marketing sectors in France; the change of name of COMPAGNIE FRANÇAISE DES PÉTROLES to TOTAL COMPAGNIE FRANÇAISE DES PÉTROLES.

Some figures for 1985 on the Group

- Resources:	
Oil (millions of tons)	49.0
Gas (billions of m ³)	5.7
- Financial data (consolidated in billions of francs)	
Sales	173.0
- in France	56.0
- outside France	117.0
Cash flow	7.9
Earnings	1.4
Net investments	8.0
on the parent company	
Sales (in billions of francs)	75.0
Net income (in billions of francs)	1.6
Dividend per share: 20F (+ tax credit of 10F).	
Date of dividend payment: June 27	

The brochure "TOTAL COMPAGNIE FRANÇAISE DES PÉTROLES IN 1985" can be obtained in English and French from Service Diffusion - 5, rue Michel-Ange - 75781 Paris Cedex 16 - France.

U.S. \$400,000,000



The Kingdom of Belgium Floating Rate Notes Due July, 2005

In accordance with the provisions of the Notes, notice is hereby given that interest payable on 29th July, 1986 will amount to U.S.\$9,646.27 per U.S.\$250,000 Note.

Interest rates applicable are as follows: 23rd Jan. 1986 to 24th Feb. 1986 - 6 3/4%; 24th Feb. 1986 to 24th Mar. 1986 - 8%; 24th Mar. 1986 to 24th Apr. 1986 - 7 1/2%; 24th Apr. 1986 to 27th May 1986 - 6 3/4%; 27th May 1986 to 27th June 1986 - 7 1/8%; 27th June 1986 to 28th July 1986 - 7 1/8%.

Agent Bank: Morgan Guaranty Trust Company of New York London

U.S. \$75,000,000

Comerica Incorporated Floating Rate Subordinated Capital Notes Due 1997

Interest Rate: 7 1/8% per annum
Interest Period: 27th June 1986 to 29th September 1986
Interest Amount per U.S.\$50,000 Note due 29th September 1986: U.S.\$22.05

Credit Suisse First Boston Limited Agent Bank

Banco Nacional do Desenvolvimento Economico U.S.\$50,000,000 Floating Rate Notes 1989

Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the three months from 27th June 1986 to 29th September 1986 the Notes will carry an interest rate of 7 1/8% per annum.

EBC Amro Bank Limited (Agent Bank)

27th June 1986.



General Electric Company

has acquired



RCA Corporation

We acted as financial adviser to General Electric Company.

June 12, 1986



Goldman Sachs International Corp.

African Development Bank

USS100,000,000 Subordinated Floating Rate Notes 1986

In accordance with the terms and conditions of the Notes, notice is hereby given that for the interest period June 27, 1986 to December 27, 1986 the Notes will carry an interest rate of 7 1/8 percent per annum for 185 days.

THE CHASE MANHATTAN BANK, N.A. LONDON, AGENT BANK.



U.S. \$50,000,000 Hapoalim International N.Y. Guaranteed Floating Rate Notes 1988

For the six months 30 June 1988 to 30 December 1988 the Notes will carry an interest rate of 7 1/8% per annum

Listed on The Stock Exchange, London

Notice of Redemption US \$150,000,000 Guaranteed Floating Rate Notes Due 2004

Sanwa International Finance Limited

Guaranteed as to payment of Principal and Interest by The Sanwa Bank, Limited

NOTICE IS HEREBY GIVEN that pursuant to Condition 5(b) of the Notes Sanwa International Finance Limited has elected to redeem on July 29, 1986 (the "Redemption Date") all of its outstanding Guaranteed Floating Rate Notes Due 2004 (the "Notes") at a redemption price equal to the principal amount thereof plus interest accrued to the Redemption Date.

CITIBANK

INTERNATIONAL COMPANIES and FINANCE

Germany applies hard and fast capital rules to note issuance facilities Bankers shrug off NIF weighting

BY DAVID LASCELLES, BANKING CORRESPONDENT, RECENTLY IN BERLIN

WEST GERMAN banks recently received a letter from their supervisory authority informing them that as from next Monday they will have to assign a 50 per cent capital weighting to their note issuance commitments. Germany thus becomes the latest of several industrial countries to apply hard and fast capital rules to this growing form of off-balance sheet business.

RISK ASSET WEIGHTINGS REQUIRED BY CERTAIN COUNTRIES FOR NIF UNDERWRITING COMMITMENTS

Table with 2 columns: Country, Weighting. Includes Germany (50% for bank, 50% for non-bank), Italy (No specific weightings), Japan (30%), Luxembourg (No capital requirements), Netherlands (50%), Switzerland (No specific weightings), UK (50%), US (30%).

The letter means that German banks will have to underpin note issuance facilities (NIFs) with half the amount of capital required for a regular loan. This is the same level as British banks, but higher than a number of other countries.

pret our existing ratios. International harmonisation was also a lesser consideration," he said. One reason why German bankers have been rather passive in their acceptance of this weighting is that they are not as heavily exposed to the NIF market as many of their foreign competitors.

Bundesaufsichtsamt has now turned its attention to other new financial instruments such as swaps and options. German banks are now required to report business volumes in these instruments on a monthly basis.

The growing interest of the supervisory office in new instruments is a sign both of German banks' increasing involvement in innovation, and of Frankfurt's emergence as a more internationally oriented financial centre since liberalisation began last year.

Good start for GMAC Europaper programme

By Peter Montagnon, Euromarkets Correspondent

GENERAL MOTORS Acceptance Corporation has issued around \$100m of commercial paper in the Euromarkets since its new programme was activated on Tuesday.

The new programme, which GMAC expects to build up to around \$2bn or more, is being closely watched in the market as bankers believe its size will make a benchmark issue for top corporate names.

Tightly priced FRNs test recent strong demand

BY CLARE PEARSON

THE RECENT strong demand for floating rate notes (FRNs) was tested yesterday when two issuers, Belgium and Alliance and Leicester, the UK building society, came to the market with tightly-priced issues.

Both deals had been bid for competitively by issuing houses. Speculation had been strong that Shearson Lehman had a mandate from Belgium, though Shearson said Belgium finally decided only yesterday morning.

In the event, Belgium was able to obtain \$400m of ten-year debt and London interbank bid rate (Libid) flat. At this level, it was able to achieve an attractive swap on part of the proceeds into floating-rate D-Mark funds.

the deal. It is listed in Luxembourg. Dealers said it was bid in the market as low as 99.88 yesterday afternoon.

In the fixed-rate sector, prices tended slightly lower. Svenska International launched a \$100m bond for its parent, the Swedish bank Svenska Handelsbanken. The five-year bond pays coupons of 8 per cent and is priced at 101.

Unusually, there was a new \$50m deal in the sterling fixed-rate market, for PHEG Group, the US transport company, one of the first issuers of sterling commercial paper. The seven-year bond, led by S. G. Warburg, pays 9 1/2 per cent coupons and is priced at par.

plastics and glass company. The issue amount was SFr 85m. Final terms will be fixed on July 10, but the coupon was indicated at 5 1/2 per cent, maturity at five years, and price at par.

Swiss bankers have been chewing over the problem of what commissions to charge on short-dated bonds since they became feasible. Bank Gutzwiller set them at 1 1/2. For a five-year placement, C. B. Pak would have paid 1 1/2 per cent fees.

In the D-Mark sector, trading was quiet although prices edged up fractionally. Mediobanca, the Italian bank, came to the market with a DM 150m deal led by BHF Bank. The five-year bond has a coupon of 2 per cent and is priced at par. The bond carries warrants into shares of IRI, the Italian telephone entity.

Istituto Bancario San Paolo priced a recent lire Eurobond for AT&T, the US telecommunications company. The 12 1/2-year seven-year bond, with a coupon of 10 1/2 per cent, was priced at 99 1/2, as had been indicated.

Diawa Europe reduced the coupon on a recent equity warrants bond for Naigra from the indicated level. Expected to be set during pricing yesterday at 3 per cent, it was reduced to 2 1/2 per cent. The exercise price was set at Y240 per share, compared with yesterday's close of Y355. The foreign exchange rate was set at Y167.2 to the dollar.

Hambros Bank in link with New York firm

By Our Financial Staff

HAMBROS BANK is to expand its corporate finance activities in the US by entering into an association with Shea, Paschall & Macchioni, a small New York investment banking firm. The link will be through Hambro America, its US subsidiary.

NZ trustee savings bank merger

BY DAI HAYWARD IN WELLINGTON

ELEVEN of New Zealand's 12 trustee savings banks are to merge so they can compete more aggressively in the country's newly deregulated banking environment.

The combined assets of the 11 banks, which are spread throughout New Zealand, will be about NZ\$4bn (US\$2.1bn), making the grouping second only to the Bank of New Zealand which has assets of about NZ\$5bn.

they could apply for the new banking licences which the government will issue later this year.

The merger proposal is a result of the freeing up of controls on the financial sector. Mr Terry Harris, who has been leading the merger discussions, said trustee savings banks must take advantage of the deregulation and realise they are no longer confined to New Zealand but now have a global area.

banks is associated with a particular geographical area. The Taranaki TSB, located in the wealthy dairy farming and oil producing province, believes it has enough resources to maintain its independence, and it will stay outside the new group.

The Taranaki TSB is the richest of the trustee savings banks. During the past two years the 12, which are autonomous and independent, have joined forces in special areas such as the operation of automated teller machines and the setting up of an electronic funds transfer point-of-sale system.

Advertisement for First Boston, Inc. featuring a large 'NEW ISSUE' box with 'U.S. \$100,000,000' and '7 3/4% Subordinated Notes Due 1996'. Lists various financial institutions as partners.

Austrian Genossenschaftliche Zentralbank (GZB)

It has appointed Citicorp, Morgan Stanley, Salomon Brothers and Saudi International Bank to act as dealers in the programme which will be used to raise funds primarily in US currency.

American General deal withdrawn

By Our Euromarkets Staff

A \$250m Eurobond deal for American General, the US diversified insurance company, was withdrawn yesterday after more than a week of trading in the grey market, as pricing negotiations broke down between the company and lead manager Credit Suisse First Boston.

Swiss venture for Shearson

By Our Euromarkets Staff

SHEARSON Lehman Brothers is to build up an underwriting role in the Swiss capital markets through a joint venture with American Express Bank. Both are subsidiaries of American Express Inc.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market. Closing prices on June 26.

Table of international bonds with columns for Issuer, Maturity, Coupon, Price, and Yield.

Swiss venture for Shearson

to head up the new entity which is to be called Shearson Lehman Amex Finance. Two other former Chase Manhattan employees are to join. Mr Rolf is to take charge of investment banking, while Mr Bruno Friedemann is to manage sales.

Swiss venture for Shearson

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Swiss venture for Shearson

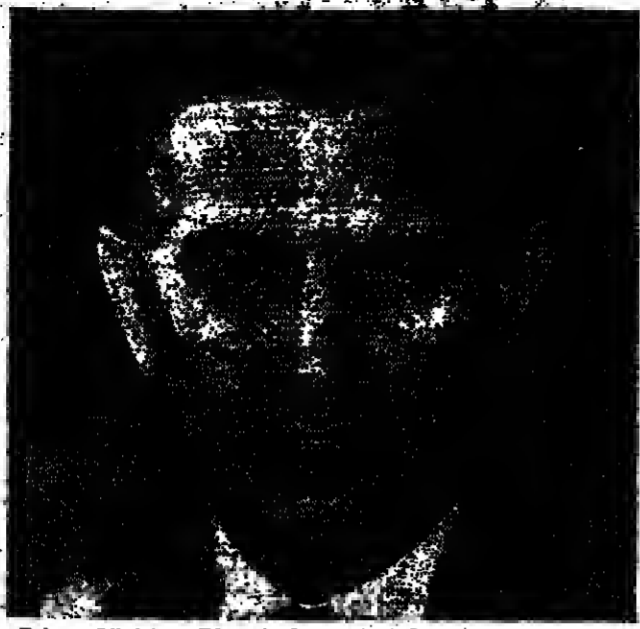
to head up the new entity which is to be called Shearson Lehman Amex Finance. Two other former Chase Manhattan employees are to join. Mr Rolf is to take charge of investment banking, while Mr Bruno Friedemann is to manage sales.

Large table of international bonds with columns for Issuer, Maturity, Coupon, Price, and Yield. Includes sections for 'CONVERTIBLE' and 'FLIGHTING RATE'.

INTL. COMPANIES & FINANCE

Canute James on a programme to limit public sector spending Jamaica seeks to fatten its assets

THE JAMAICAN Government has embarked on a programme to bring 21 leading state-owned companies under strict financial management. The aim is to reduce their dependence on public funds by making them profitable, or, at the very least, reducing their losses.



Prime Minister Edward Seaga, offering state entities to private sector.

In the longer term, the Government wants to strengthen and fatten the public companies to make them more attractive prospects for eventual divestment to local and foreign investors.

Mr Edward Seaga, the Prime Minister and Finance Minister, has pursued a policy of reducing the government's involvement in the economy by offering state-owned enterprises for sale or lease to the private sector. Already several US and local companies have leased state-owned hotels. Tate and Lyle, the leading British sugar company, has taken over the management of the state sugar sector under a ten-year contract, while the state-owned National Commercial Bank, the island's largest, which was created from the local operations of Barclays Bank, is to be divested later this year.

The 21 public companies which are now the subject of financial scrutiny, include the Jamaica Broadcasting Corporation, which operates the island's only television channel and one of its two radio stations, the Petroleum Corporation of Jamaica, which operates an oil refinery, the local telephone company, and Air Jamaica.

"For years a number of public sector entities have been a drain on the central government budget, requiring support to subsidise operations, cover losses, repay debt or finance development projects," said Mr Seaga when announcing plans for tighter management of the companies.

The combined expenditure for all 21 companies will this year reach J\$6.6bn (US\$1.2bn) which

is more than the Government's budgeted expenditure on them for the year.

Mr Seaga said that although the finances of the 21 selected companies have improved over the past five years, there is still cause for government concern at their performance.

In 1980, for example, after financing their costs, paying taxes, dividends and servicing debts, the companies contributed only J\$59.6m towards their capital expenditure — a contribution of 16 per cent.

This year the companies are expected to provide J\$53m, or 45 per cent, of their capital development projects.

Five of the companies last year recorded operating deficits totalling J\$74.5m. This year only two of the five are expected to be in loss and to show a combined deficit of J\$35.5m.

Out of the companies' expenditures this year, J\$6.09bn is being financed through revenue, depreciation, and other resources, with the shortfall being met from loans and government transfers.

It is on the basis of the promise of tighter management that the Government has projected improvements this year for several of the companies involved. The Jamaica Broadcasting Corporation, for example, which last year recorded a deficit of J\$3.7m, is this year expected to achieve a J\$1.6m surplus.

The Petroleum Corporation expects to see its J\$18.8m deficit of last year reduced to J\$4.9m this year, while the telephone company is projecting a J\$40.9m surplus after a J\$26m deficit last year.

The efforts to improve the finances of the state sector and to seek to privatise the com-

panies represent a community of views of Mr Seaga's pro-business administration, and those of financial institutions. "This is all part of earlier negotiations with the World Bank, which was given a commitment that most of these public entities would eventually be divested," explained Dr Paul Chen-Young, one of Jamaica's leading stockbrokers.

The interest of local and foreign investors in accepting government offers for state entities has been reflected not only in the leasing, management contracting and outright purchasing of hotels, sugar mills and state farms, but also in air-line catering operations and a food processing plant.

Yet the Government has had to reverse its policy in two areas sensitive to the economy. Since taking office, the Government has bought a local oil refinery from Exxon of the US after the company threatened to close it — a move which would have brought immediate chaos to local commerce and industry.

The closure of a bauxite refinery last year by Aluminum Company of America (Alcoa) led the Government to set up a state company to lease and re-open the facility to avoid a loss of urgently needed foreign exchange from the most important sector of the weak economy. Alcoa is negotiating to return to Jamaica and run the plant, but Mr Seaga is asking for the Government to have a 51 per cent stake in the facility as one condition of the US company's return.

The NCB's net worth was put at J\$67.2m at the end of 1985, and stock market analysts say the institution could be worth J\$200m when listed on the stock exchange.

The Government is planning to hold on to one-third of its equity in the NCB, and the analysts say the possible offer of J\$140m in shares would be the largest ever made to the Jamaican public.

Construction of the plant is still subject to approval from the Swedish authorities. It will be Stora's first major investment in a newsprint machine since 1968.

The capacity of Sweden's newsprint producers — Sweden is the world's second largest exporter of newsprint after Canada — is growing quickly and should exceed 2m tonnes a year by late 1988 compared with a production of 1.6m tonnes in 1985.

Construction of the plant is still subject to approval from the Swedish authorities. It will be Stora's first major investment in a newsprint machine since 1968.

The capacity of Sweden's newsprint producers — Sweden is the world's second largest exporter of newsprint after Canada — is growing quickly and should exceed 2m tonnes a year by late 1988 compared with a production of 1.6m tonnes in 1985.

Stora to build SKr 1.3bn newsprint plant

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

STORA, Sweden's largest forest products group, is to build a newsprint machine at a cost of some SKr 1.3bn (\$180m). The new mill will have a capacity of 215,000 tonnes a year. Construction is expected to begin later this year and should be completed during 1988.

The machine will increase Stora's total newsprint capacity to around 615,000 tonnes a year including 100,000 tonnes of magazine paper and 135,000 tonnes a year of improved newsprint. It will also allow Stora to close three older newsprint machines with a total capacity of some 50,000 tonnes.

As part of the project Stora

will increase its capacity for thermo-mechanical pulp at its main Kvarnsveden newsprint mill to 330,000 tonnes a year from a current level of some 185,000 tonnes.

Construction of the plant is still subject to approval from the Swedish authorities. It will be Stora's first major investment in a newsprint machine since 1968.

The capacity of Sweden's newsprint producers — Sweden is the world's second largest exporter of newsprint after Canada — is growing quickly and should exceed 2m tonnes a year by late 1988 compared with a production of 1.6m tonnes in 1985.



Royal Insurance plc

£50,000,000

Sterling Commercial Paper Programme

Dealers

Barclays Bank PLC

S.G. Warburg & Co. Ltd.

Issuing and Paying Agent

Barclays Bank PLC

June, 1986

U.S. \$75,000,000



Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

Floating Rate Subordinated Notes Due 1991

Interest Rate 7 1/16% per annum

Interest Period 27th June 1986 29th September 1986

Interest Amount per U.S. \$1,000 Note due 29th September 1986 U.S. \$18.77

Credit Suisse First Boston Limited Agent Bank

U.S. \$250,000,000



Crédit Lyonnais

Subordinated Floating Rate Notes Due 1999

Interest Rate 7 1/16% per annum

Interest Period 27th June 1986 29th December 1986

Interest Amount per U.S. \$10,000 Note due 29th December 1986 U.S. \$362.93

Credit Suisse First Boston Limited Reference Agent

From cradle to Gravesend it's our responsibility.



Mighty river it may be once it gathers strength, but the source of the River Thames is modest indeed. No more than a spring in a Cotswold field three miles south west of Cirencester.

Yet from there right to the river's mouth beyond Gravesend, Thames Water is responsible for a vast range of services in an area twenty times the size of London.

Foremost of these, is providing water for 11.5 million people. This involves the treating and pumping of up to 1,000 million gallons every day. The water comes from the Thames itself plus hundreds of wells and boreholes in the area, then is stored in 33 main reservoirs. Sewage treatment and disposal are provided on a similarly large scale.

There are 44 locks and weirs to look after and 136 miles of river between Cricklade and Teddington to keep navigable.

Then there are the other services, flood protection and pollution control, conservation and recreation amenities. There are the new, recently inherited responsibilities too, including



operating the Thames Barrier and its visitors centre plus the management of London's main passenger piers.

Now and in the future everyone will benefit from our running water. Thames Water, Nugent House, Vauxhall Road, Reading RG1 8DB.

RUNNING WATER FOR YOU

UK COMPANY NEWS

Lionel Barber reports on the Ferruzzi conference
Beating around the sugar bush

CHAIN-SMOKING his way through yesterday's press conference at the Howard Hotel, London, Mr Renato Picco appeared the epitome of innocent charm and courtesy.



Ferruzzi executives: Mr Renato Picco, the chairman (centre) with Mr Renato Picco on his left and Mr Mario Gabriellini on his right.

For almost an hour, Mr Gardini, the 52-year-old chairman of Ferruzzi, the giant Italian food and agricultural concern, offered his audience a hazy overview of his plans for the European sugar industry.

House Japhet, merchant bank adviser to Ferruzzi, yesterday urged Ferruzzi to clarify its position, if necessary by making a formal bid.

would boost its UK market share to more than 90 per cent if it gained control of British Sugar.

Tate and Ferruzzi also know that their designs are bound to arouse suspicion, from the consuming public, from the sugar farmers in the UK and Europe, and above all from the competition watchdogs.

Tranwood raises bid for Aitken to £89m

Tranwood Group, the "shell" company headed by Mr Nick Oppenheim, raised yesterday its all-share takeover bid for Aitken Home, the troubled financial services group by £9m to £89m.

Dee shareholders fail to take up full clawback

SHAREHOLDERS in Dee Corporation have taken up only 25 per cent of the 75 per cent clawback option from the controversial £350m vendor placing earlier this month.

Stonehill falls to £38,000

PERSISTENTLY difficult trading conditions have been blamed for a fall in pre-tax profits at Stonehill Holdings, furniture makers, from £1.04m to £88,000 in the year to April 6 1986.

Edington's deposit licence

Edington, the newly-created Manchester-based financial institution, has received a Bank of England licence to take deposits, and will open for business by the end of July.

US \$21m bid for North Sea oil explorer

Texas Gas Exploration, a subsidiary of CSX Corporation, the large US transport and natural resources group, yesterday launched a \$20.5m agreed cash bid for Industrial Seawell Energy, a USM-quoted oil and gas company.

US funds raise Lornho stakes

New York-based mutual funds have been building up a stake in Lornho, the trading conglomerate headed by Mr Tiny Rowland, have increased their combined stake to 23.2m shares.

Woolworth raid lifts Dixons stake to 5.2%

Dixons, through its stockbroker Casanova, bought 27m Woolworth Holdings shares yesterday in a sudden reversal of its recent policy which had been to let the Woolworth share price drift lower.

Portsmouth and Sunderland Newspapers, plc
Development Costs Reduced Profits

There were two main reasons for the Company's disappointing results during the year ended March 1986. Difficult trading conditions led to lower profits in two publishing centres, and increased costs were accepted by investing in long-term enterprises which do not offer short-term returns.

IN BRIEF

KEWILL SYSTEMS, computer software, which was launched on the USM last September, increased its pre-tax profits by 24 per cent from £504,000 to £626,000.

SEVENHAWK, property developer and construction company, raised pre-tax profits from £1.2m to £1.1m in the six months to March 1986.

CENTROVINCIAL ESTATES lifted net revenue from investment properties from £2.9m to £3.46m in the year to March 1986.

DIVIDENDS ANNOUNCED

Table with columns: Company Name, Current Payment, Date of Payment, Current Dividend, Total Dividend, Total Last Year.

Guinness Export to axe 100 jobs

ANOTHER 100 jobs are to be shed in the Greater Merseyside Region, by Guinness Export. The company will close by October its administrative office in Liverpool, its final link with the city.

Ward White makes good start

THE CURRENT year at Ward White Group, footwear manufacturer, had got off to a good start, with sales running well ahead of 1985.

Thames TV share allocations

THE BASIS of allocation for the issue of shares in Thames Television was announced yesterday. The offer for sale was oversubscribed 25.9 times, while the offer of shares to employees was oversubscribed twice.

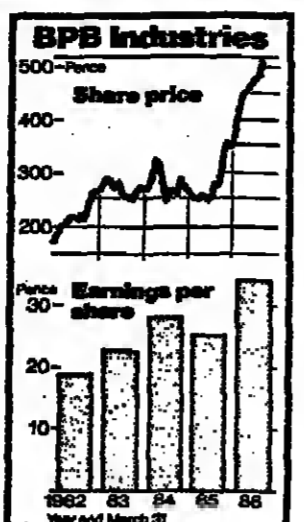
BPB INDUSTRIES advertisement featuring a 30% Profit Increase and a table of financial data for 1986 and 1985.

UK COMPANY NEWS

BPB rises 31% helped by overseas subsidiaries

WITH strong profit-growth by overseas subsidiaries, BPB Industries has exceeded market expectations and announced a 31 per cent rise in pre-tax profits for the year ending March 31 1986.

Trading conditions in the UK strengthened as the year progressed and most businesses experienced improved results. Sales in the UK building materials sector were £300.3m (£300.5m), and in paper and packaging £108.5m (£104.4m).



BPB Industries Share price and Earnings per share. The share price rose from 200 in 1982 to 450 in 1986. Earnings per share rose from 10 in 1982 to 25 in 1986.

CHI on target with 45% rise to £2.1m

STRONG PROGRESS by its chemical and polymer interests enabled CHI Industries to lift its 1985-86 profits to £2.1m, an improvement of 45 per cent over the previous year's 1.5m.

Hargreaves up 27% to £9m

Hargreaves Group yesterday matched the top end of analysts' forecasts when it announced a 27 per cent increase in full year profits. The result — pre-tax profits just breached the £9m mark against £7.1m — largely reflected the rationalisation of the company's quarries business which accounted for most of a £2.06m rise to £2.77m by the environment and construction materials division.

1986-87 would see consolidation and the same rate of profits improvement should not be looked for. Meanwhile, shareholders are set to receive a higher final dividend of 3.1p (2.5p) for a 5.5p (4.5p) total, comfortably covered by 1985-86's earnings per share of 15.1p (9.8).

Adam Leisure £0.33m in red for first half

The downturn in sales of electronic games which hit the Adam Leisure Group in 1984 continued through the opening six months of the 1985-86 year. Losses for the period totalled £325,000 pre-tax. That compared with £494,000 a year earlier and with a deficit of £745,000 in the second six months of the 1983-1984 year.

Overseas contract losses slow Wellman progress

AFTER swinging back into profit at the interim stage, Wellman, thermal and mechanical engineer, designer and manufacturer, made further significant progress during the second half, but pre-tax profits were pegged back as a result of a £689,000 loss on an overseas contract.

The directors said yesterday that the traditional peak selling period up to Christmas had been below expectations. They added, however, that the New Year sales period had been very encouraging and had shown a substantial increase over the same period of last year.

Property sale boosts Latham to £1.91m

BOOSTED BY a property sale surplus of £1.45m pre-tax profits for James Latham, timber merchant, improved by £251,000 to £1.91m. An increase in the final payment from 8.25p to 9.5p is proposed, making the total 14.25p, against 13.25p. Earnings per £1 share were 49p (47.9p).

Property sale boosts Latham to £1.91m

Of the present year he added that the company's businesses were trading satisfactorily. In particular the regional operations were continuing to make progress. The tax charge was £595,000 (£571,000) and with dividends absorbing £438,000 (£413,000) the retained profit for the year was slightly ahead at £875,000, against £873,000.

Downturn at Burtonwood

DESPITE A £517m improvement in turnover to £30.6m, Burtonwood Brewery saw its profits for the past year fall to £2.04m pre-tax. In 1984-85 they recovered from a depressed £2.23m to £2.41m. With yesterday's preliminary results the directors said a significant recovery was under way and that action was being taken to deal with poor performance areas.

Downturn at Burtonwood

They added that management had been strengthened and that the future held many opportunities for and few threats to Burtonwood. Earnings for the year to March 31 1986 fell to 35.1p (52.7p). A final dividend of 8.3p, however, raises the net total from 10p to 10.9p on the enlarged capital—at least 10p was forecast last July at the time of the £3.24m rights issue.

Downturn at Burtonwood

Mr Michael Latham, chairman, said that during the re-organisation there had been some dislocation and extra trading costs had been incurred. He added, though, that facilities had been completely modernised and borrowings had shown a significant fall. Depreciation was up at £305,000 (£223,000) and interest charges were higher at £563,000 (£811,000), making the profit, before the sale surplus, £946,000 against £1.66m. The chairman said that the policy of investing in merchanting activities was proving successful.

FORD & WESTON GROUP PLC. Placing by LLOYDS MERCHANT BANK LIMITED of 2,647,000 ordinary shares of 5p each at 85p per share. SHARE CAPITAL: £1,120,148 in ordinary shares of 5p each. Issued and to be issued 1,574,150 (£44,150).

Granville & Co. Limited. Member of The National Association of Security Dealers and Investment Managers. 8 Lovat Lane, London EC3R 8BP. Telephone: 01-421 1212. Table with columns: High Low, Company, Price Change, Dividend Yield, Actual Dividend, Fully Paid.

Advertisement for Arab African International Bank. This announcement appears as a matter of record only. June 17, 1986. We are pleased to announce that the shareholders of Arab African International Bank at an extraordinary General Assembly meeting held on June 17, 1986 have approved an increase in Authorized Capital from US \$200 Million to US \$500 Million.

Dixons Offer for Woolworth. DIXONS INCREASED OFFER WORTH 826.1p. WOOLWORTH SHARE PRICE 760.0p. DIXONS BID HIGHER BY 66.1p. Dixons increased offer is final. Acceptances should be received by 1.00p.m. on 2nd July, 1986.

البنك العربي الافريقي الدولي arab african international bank

The value of Dixons increased offer (based on the value of Dixons securities being offered in exchange for Woolworth Shares) has been computed by reference to a price for Dixons Ordinary Shares of 340p based on market prices at 3.30p.m. on 26th June, 1986, after adjusting for Dixons forecast 1985/86 final dividend of 2.225p (net) per share, and an estimate of the value of a Dixons Convertible Preference Share of 99.30p. Cazenove & Co., stockbrokers to Dixons, have confirmed that, based on market conditions on 26th June, 1986, a reasonable estimate of the value of each Dixons Convertible Preference Share would have been 99.30p. The value of a Woolworth Share, which is quoted on an ex-dividend basis, has been based on market prices at 3.30p.m. on 26th June, 1986.

EQUITIES

Table with columns: Stock, 1986 High, 1986 Low, Change, % Change, Dividend, Yield, etc. Lists various stocks like Anglo-Continental, Anglo-Continental, Anglo-Continental, etc.

FIXED INTEREST STOCKS

Table with columns: Stock, 1986 High, 1986 Low, Change, % Change, Dividend, Yield, etc. Lists fixed interest stocks like Anglo-Continental, Anglo-Continental, Anglo-Continental, etc.

"RIGHTS" OFFERS

Table with columns: Stock, 1986 High, 1986 Low, Change, % Change, Dividend, Yield, etc. Lists rights offers for various companies.

FT CROSSWORD PUZZLE No. 6058

CINEPHILE

Crossword puzzle grid with numbers 1-31 indicating starting positions for clues.

- ACROSS
1 Vegetable without plate gets curriewy (6)
4 Get either side of the street and use route (8)
11 Trade 'foolstols', perhaps, gets curriewy (7)
12 Sort of chemistry-nothing beat racing? (7)
13 Deserving people like it to skip (4)
14 A (male) potato without the 'pomme' is French-died regardless? (10)
15 Rake outside or firm gets curriewy (6)
16 A priest, cooerred, gets curriewy (7)
17 Typical arrangement for bricks? (4-3)
21 Girl on a river gets curriewy (6)
24 Prediction: ends of loe for stowage spee (10)
25 Had a final encounter with Nancy's neighbour? (4)
26 Walk weary in a river and go off (7)
28 Oil discovered after excursion in Loya? (7)
29 Worried about curriewy (8)
31 Cuban actors or otherwise (6)
DOWN
1 Girl directors should take notice (5)
2 Song used by saint at religious distance (9)
3 Large, if assum, in the sink? (4)

Solution to Puzzle No. 6057

Grid showing the solution to the crossword puzzle.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Large table listing various unit trusts, their managers, and performance data. Includes columns for Unit Trust Name, Manager, Assets, etc.

UPK0150

INSURANCE, OVERSEAS & MONEY FUNDS

Table listing various insurance and investment products, including company names and financial details.

Table listing various insurance and investment products, including company names and financial details.

Table listing various insurance and investment products, including company names and financial details.

Table listing various insurance and investment products, including company names and financial details.

Table listing various insurance and investment products, including company names and financial details.

Table listing various insurance and investment products, including company names and financial details.

Table listing various insurance and investment products, including company names and financial details.

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CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar stays in narrow range

The dollar stayed within its trading range yesterday with volume well below recent levels. There was a reluctance to take out fresh positions ahead of the month, quarter and half year.

£ IN NEW YORK

Table with columns: June 26, Label, Prev. close. Includes Sterling, Deutsche Mark, and other exchange rates.

The dollar benefited from largely dollar demand ahead of the quarter and half year end. Trading was extremely quiet and uneventful with the dollar closing at DM 2.2290.

FINANCIAL FUTURES

Lacking a focus

Trading was very lethargic on the London International Financial Futures Exchange yesterday. Dealers commented that there was no focus to the market, and also little consensus about the implications of various potential factors, including the Mexico debt problem.

Table of Financial Futures: LFFS LONG GILT FUTURES OPTIONS, LFFS EURO-DOLLAR FUTURES OPTIONS, LFFS S&P 500 FUTURES OPTIONS.

STERLING -- Trading ranges against the dollar in 1986 is 1.5552 to 1.5700. May average is 1.5620. Exchange rate index closed at 76.0 after opening at 75.8 and compared with 74.1 on Wednesday. The six months age figure was 77.9.

POUND SPOT - FORWARD AGAINST POUND

Table of Pound Spot - Forward Against Pound with columns: June 26, Day's spread, Close, One month, % change, Three months, % change.

CURRENCY MOVEMENTS

Table of Currency Movements showing changes in exchange rates for various currencies like Sterling, Deutsche Mark, etc.

CHICAGO

Table of Chicago market data including US Treasury Bills and Euro-Dollar rates.

DOLLAR SPOT - FORWARD AGAINST DOLLAR

Table of Dollar Spot - Forward Against Dollar with columns: June 26, Day's spread, Close, One month, % change, Three months, % change.

CURRENCY RATES

Table of Currency Rates listing various international currencies and their rates.

LONDON

Table of London market data including US Treasury Bills, Euro-Dollar, and Sterling rates.

EXCHANGE CROSS RATES

Table of Exchange Cross Rates showing rates between various currencies like UK, France, Germany, etc.

OTHER CURRENCIES

Table of Other Currencies listing rates for currencies like Argentina, Brazil, etc.

STERLING INDEX

Table of Sterling Index showing values for different dates and periods.

EURO-DOLLAR INTEREST RATES

Table of Euro-Dollar Interest Rates showing rates for various maturities like 1 month, 3 months, etc.

EMS EUROPEAN CURRENCY UNIT RATES

Table of EMS European Currency Unit Rates showing rates for various European currencies.

FT LONDON INTERBANK FIXING

Table of FT London Interbank Fixing showing rates for various currencies.

MONEY MARKETS

Very quiet trading

Interest rates remained steady on the London money market yesterday. Three-month interbank rates eased very slightly to 8.5 per cent, but there was no change in very quiet conditions, with nothing to stimulate activity.

NEW YORK RATES

Table of New York Rates showing interest rates for various instruments like Treasury Bills, etc.

MONEY RATES

Table of Money Rates showing rates for various currencies and instruments.

GLOBAL TREASURY SERVICES

"Second to none"

Our story starts in 1835 when the forerunner of the ANZ Group was granted a Royal charter in London. We have been active in the City ever since. In the early 1950s ANZ were among the pioneers in developing the Foreign Exchange Market.

ANZ BANK logo and contact information for London, Australia, and New Zealand.

WIMBLEDON TICKETS AVAILABLE, CENTRE COURT COVERAGE, and other sports-related advertisements.

Art Galleries advertisement for THE FORBIDDEN LIBRARY AN EXHIBITION OF ENGLISH ART.

\$ WORLD VALUE OF THE DOLLAR

BANK OF AMERICA NT & SA, ECONOMICS DEPARTMENT, LONDON

Large table titled 'WORLD VALUE OF THE DOLLAR' showing exchange rates for various countries and currencies.

Footnote explaining the methodology for the World Value of the Dollar table, including conversion rates and data sources.

BRITISH FUNDS

Table of British Funds with columns for Name, Price, and Yield. Includes sections for 'Shorts' (Lives up to Five Years), 'Five to Fifteen Years', and 'Over Fifteen Years'.

AMERICANS—Cont.

Table of American Funds with columns for Name, Price, and Yield. Includes sections for 'Shorts' (Lives up to Five Years), 'Five to Fifteen Years', and 'Over Fifteen Years'.

LONDON SHARE SERVICE

BUILDING, TIMBER, ROADS—Cont.

Table of Building, Timber, and Roads shares with columns for Name, Price, and Yield.

ENGINEERING—Continued

Table of Engineering shares with columns for Name, Price, and Yield.

INDUSTRIALS—Continued

Table of Industrial shares with columns for Name, Price, and Yield.

DRAPERY & STORES—Cont.

Table of Drapery & Stores shares with columns for Name, Price, and Yield.

ELECTRICALS

Table of Electrical shares with columns for Name, Price, and Yield.

CHEMICALS, PLASTICS

Table of Chemicals and Plastics shares with columns for Name, Price, and Yield.

BANKS, HP & LEASING

Table of Banks, HP & Leasing shares with columns for Name, Price, and Yield.

INT. BANK & O'SEAS GOVT STERLING ISSUES

Table of International Bank and Overseas Government Sterling Issues with columns for Name, Price, and Yield.

CORPORATION LOANS

Table of Corporation Loans with columns for Name, Price, and Yield.

COMMONWEALTH & AFRICAN LOANS

Table of Commonwealth and African Loans with columns for Name, Price, and Yield.

LOANS

Table of Loans with columns for Name, Price, and Yield.

BEERS, WINES & SPIRITS

Table of Beers, Wines & Spirits shares with columns for Name, Price, and Yield.

FOOD, GROCERIES, ETC

Table of Food, Groceries, etc. shares with columns for Name, Price, and Yield.

HOTELS AND CATERERS

Table of Hotels and Caterers shares with columns for Name, Price, and Yield.

AMERICANS

Table of American shares with columns for Name, Price, and Yield.

BUILDING, TIMBER, ROADS

Table of Building, Timber, and Roads shares with columns for Name, Price, and Yield.

ENGINEERING

Table of Engineering shares with columns for Name, Price, and Yield.

INDUSTRIALS (Miscellaneous)

Table of Industrial (Miscellaneous) shares with columns for Name, Price, and Yield.

INDUSTRIALS - Continued

Table of industrial stocks including companies like British Petroleum, Shell, and ICI, with columns for stock price, dividends, and other financial metrics.

LEISURE - Continued

Table of leisure stocks including companies like British Airways, British Telecom, and British Gas, with columns for stock price, dividends, and other financial metrics.

PROPERTY - Continued

Table of property stocks including companies like British Land, Granada, and News International, with columns for stock price, dividends, and other financial metrics.

INVESTMENT TRUSTS - Cont.

Table of investment trusts including companies like British American Investment Trust, British Columbia Investment Trust, and British European Investment Trust, with columns for stock price, dividends, and other financial metrics.

FINANCE, LAND - Cont.

Table of finance and land stocks including companies like British American Finance, British Columbia Finance, and British European Finance, with columns for stock price, dividends, and other financial metrics.

MINES - Continued

Table of mining stocks including companies like Anglo American, De Beers, and Anglo Coal, with columns for stock price, dividends, and other financial metrics.

MOTORS, AIRCRAFT TRADES

Table of motor and aircraft trade stocks including companies like British Leyland, British Aerospace, and British Airways, with columns for stock price, dividends, and other financial metrics.

Commercial Vehicles

Table of commercial vehicle stocks including companies like British Leyland, British Aerospace, and British Airways, with columns for stock price, dividends, and other financial metrics.

Components

Table of component stocks including companies like British Leyland, British Aerospace, and British Airways, with columns for stock price, dividends, and other financial metrics.

Garages and Distributors

Table of garage and distributor stocks including companies like British Leyland, British Aerospace, and British Airways, with columns for stock price, dividends, and other financial metrics.

NEWSPAPERS, PUBLISHERS

Table of newspaper and publisher stocks including companies like British Newspapers, British Publishers, and British Media, with columns for stock price, dividends, and other financial metrics.

SHIPPING

Table of shipping stocks including companies like British Shipping, British Maritime, and British Ports, with columns for stock price, dividends, and other financial metrics.

SHOES AND LEATHER

Table of shoes and leather stocks including companies like British Shoes, British Leather, and British Footwear, with columns for stock price, dividends, and other financial metrics.

SOUTH AFRICANS

Table of South African stocks including companies like Anglo American, De Beers, and Anglo Coal, with columns for stock price, dividends, and other financial metrics.

TEXTILES

Table of textile stocks including companies like British Textiles, British Spinning, and British Weaving, with columns for stock price, dividends, and other financial metrics.

TOBACCO

Table of tobacco stocks including companies like British Tobacco, British Cigarettes, and British Pipes, with columns for stock price, dividends, and other financial metrics.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stocks including companies like British Trusts, British Finance, and British Land, with columns for stock price, dividends, and other financial metrics.

PROPERTY

Table of property stocks including companies like British Land, Granada, and News International, with columns for stock price, dividends, and other financial metrics.

INSURANCES

Table of insurance stocks including companies like British Insurance, British Life, and British Pensions, with columns for stock price, dividends, and other financial metrics.

LEISURE

Table of leisure stocks including companies like British Airways, British Telecom, and British Gas, with columns for stock price, dividends, and other financial metrics.

OIL AND GAS

Table of oil and gas stocks including companies like Anglo American, De Beers, and Anglo Coal, with columns for stock price, dividends, and other financial metrics.

OVERSEAS TRADERS

Table of overseas trader stocks including companies like British Overseas, British International, and British Global, with columns for stock price, dividends, and other financial metrics.

PLANTATIONS

Table of plantation stocks including companies like British Plantations, British Rubber, and British Palm Oil, with columns for stock price, dividends, and other financial metrics.

MINES

Table of mining stocks including companies like Anglo American, De Beers, and Anglo Coal, with columns for stock price, dividends, and other financial metrics.

Central African

Table of Central African stocks including companies like Anglo American, De Beers, and Anglo Coal, with columns for stock price, dividends, and other financial metrics.

Finance

Table of finance stocks including companies like British American Finance, British Columbia Finance, and British European Finance, with columns for stock price, dividends, and other financial metrics.

Australians

Table of Australian stocks including companies like Anglo American, De Beers, and Anglo Coal, with columns for stock price, dividends, and other financial metrics.

Miscellaneous

Table of miscellaneous stocks including companies like British Miscellaneous, British Diverse, and British Various, with columns for stock price, dividends, and other financial metrics.

NOTES

Notes section containing various financial news items, company announcements, and market commentary.

REGIONAL & IRISH STOCKS

Table of regional and Irish stocks including companies like British Regional, British Irish, and British Local, with columns for stock price, dividends, and other financial metrics.

Recent Issues and Rights Page 39

Information regarding recent stock issues and rights, including details on company offerings and shareholder rights.

LONDON STOCK EXCHANGE

Institutional and US support push leading shares up again

The oil majors. A mixture of sustained European and US buying interest lifted Shell 8 to 805p Royal Dutch 3 to 253p and BP 3 to a 1986 high of 865p.

Second-line Oils continued to make progress especially Industrial Scottish Energy which edged up 3 more to 88p following the agreed 90p share cash bid from Texas Gas Exploration.

Confirmation of further US support coupled with a lively traded option business led the FTSE 100 to 2499. Other Overseas Traders were subdued. A largely technical rally in the Financials followed.

At the close of business the leading heavyweights were led with gains ranging to almost 22 as in Vial Reefs, at 244p. Randfontein advanced 2 1/2 to 244p.

Interest in UK-domiciled Financials was minimal. Consolidated Goldfields held at 430p, despite the upturn in Gold, but Rio Tinto-Zinc drifted off a couple of pence to 593p.

The Australian mining sector fared poorly with substantial interest. Another general bout of weakness by overnight domestic markets and renewed pressure on the pound.

Traded Options in Dioxin got off to an extremely encouraging start with 2,601 calls and 591 puts transacted.

Shell move ahead. Firm oil prices and the absence of any bad news from the Opec market at Bristol encouraged renewed support for Shell.

EUROPEAN OPTIONS EXCHANGE

Table with columns: Series, Vol., Last, High, Low, etc. for various European options.

Table with columns: Stock, Vol., Last, High, Low, etc. for various stocks.

TRADITIONAL OPTIONS

Table with columns: Deal, Last, For, etc. for traditional options.

YESTERDAY'S ACTIVE STOCKS

Table with columns: Stock, Closing price, Day's change, etc.

WEDNESDAY'S ACTIVE STOCKS

Table with columns: Stock, No. of shares, Day's change, etc.

RISES AND FALLS YESTERDAY

Table with columns: Risen, Falls, Same for various categories.

FINANCIAL TIMES STOCK INDICES

Table with columns: Index Name, June 26, 25, 24, 23, 22, 21, 20, 19, 18, 17, 16, 15, 14, 13, 12, 11, 10, 9, 8, 7, 6, 5, 4, 3, 2, 1, 1986 High, 1986 Low, etc.

LONDON REPORT AND LATEST SHARE INDEX TEL. 01-946 8026

Elsewhere in Stores, bid speculation continued to surround small-order housewares. Finally 6 up at 432p - a rise of 30 so far this week.

Hargreaves down. Hargreaves re-setting profit-taking after the preliminary figures, fell away to close 10 cheaper at 180p.

Textiles featured. Certain textiles responded to our analysis which predicted a net 10 up at 290p; the company is about to host a presentation for analysts.

Among Tobaccos, Rothmans International closed up at 127p; its Carling O'Keefe subsidiary has sold its Carling and Carling Black Label trade marks for the UK and Europe.

Investment Trusts highlighted. Group Investors which announced utilisation proposals and touched 305p before settling at 300p.

NEW HIGHS (102). AMERICANA (9), BANKS (1), BREWERS (2), BUILDING (6), etc.

BASE LENDING RATES

Table with columns: Bank Name, Rate, etc.

Account Dealing Dates

Table with columns: Option, First Declares, Last Account Dealings, etc.

Shares and bond markets put up a credible performance in London yesterday. Despite the large amounts of cash tied up in the Thames TV and Morgan Grenfell share issues, sufficient funds were available to send leading stocks higher again and rescue Government securities from an early setback.

US influences via Wall Street's surge to a record level on Wednesday and selective support of international issues were a prop for the equity market.

UK institutional investors were encouraged to cast off their pre-occupations with the Thames TV and Morgan Grenfell flotations and they too began inquiring for certain stocks.

After a three-day spell of rising values, the gilt-edged market ran into an early bout of profit-taking. The sales were triggered by an initially easier sterling/dollar rate and by a reactionary trend in the US bonds.

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Table with columns: EQUITY GROUPS & SUB-SECTIONS, Thursday June 26 1986, Index No., Day's Change, etc.

FIXED INTEREST

Table with columns: PRICE INDICES, British Government, 5 years, etc.

Opening index 1630.2; 10 am 1634.4; 11 am 1633.9; Noon 1636.1; 1 pm 1636.3; 2 pm 1637.1; 3 pm 1637.1; 4 pm 1637.3

WORLD STOCK MARKETS

Table of world stock markets including Australia, Germany, Norway, Japan, Canada, and various regional indices. Columns include country, date, price, and change.

Table of Canadian stock markets including Toronto and Montreal. Columns include stock name, price, and change.

Table of stock indices including New York Dow Jones, Standard and Poors, and various regional indices. Columns include index name, value, and change.

Table of over-the-counter stocks with columns for stock name, price, and change.

Table of London stock markets including chief price changes and various stock listings.

Advertisement for Financial Times featuring a hand holding a pen and the text 'For morning delivery of the FT in major business centers coast-to-coast, call 212-572-4500.'

Advertisement for ANKARA featuring a large logo and the text 'SPECIAL SUBSCRIPTION HAND DELIVERY SERVICE' and 'Some business travellers will change neither hotel nor newspaper.'

Prices at 3pm, June 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table containing stock prices for various companies, organized in columns with headers for stock name, price, and change.

Continued on Page 37

NYSE COMPOSITE PRICES

AMEX COMPOSITE PRICES

Prices at 3pm, June 26

Table of NYSE Composite Prices. Columns include Stock, High, Low, Last, Change, and Volume. Includes sub-sections for 'Continued from Page 36' and 'Special Subscription'.

Table of AMEX Composite Prices. Columns include Stock, High, Low, Last, Change, and Volume. Includes sub-sections for 'Continued from Page 36' and 'Special Subscription'.

OVER-THE-COUNTER Nasdaq national market, 2.30pm prices

Table of Over-the-Counter prices. Columns include Stock, High, Low, Last, Change, and Volume. Includes sub-sections for 'Continued from Page 36' and 'Special Subscription'.

Special Subscription HAND DELIVERY SERVICE of the FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER in SCANDINAVIA and SPAIN & PORTUGAL. Includes contact information for K. Mikael Heintz and John Rolley.

Continued on Page 38

FINANCIAL TIMES WORLD STOCK MARKETS

WALL STREET

Profit-taking brings retreat

A COOLER trend in the Treasury bond markets brought some profit-taking in Wall Street stocks yesterday, writes Terry Byland and Roderick Oram in New York. After a brave start, industrial stocks began to sag...

The transportation sector proved a weakening influence in the market, with both its two main elements, airlines and railroads, turning down. Second thoughts about People Express' problems are leading investors to expect fierce competition from other airlines...

The retail sector had another busy session, with Sears Roebuck gaining a further 5% to \$48 1/4 in brisk trading. But May Department Stores weakened 3/4% to \$81 1/4 as it began its \$60-a-share tender offer for Associated Dry Goods...

EUROPE

Frankfurt fails to find buyers

A LACK of fresh incentives and the onset of the European holiday season left bourses with no clear direction. Frankfurt closed lower - in contrast to most other major bourses...

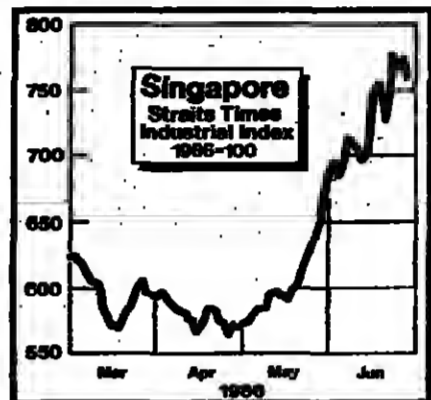
Zurich saw small gains in most sectors - apart from chemicals and electricals - as buyers drifted back to the market.

Among transport stocks Swissair continued to fall, closing Sfr 40 lower to Sfr 1,580. The company announced lower revenues last week. Banks were mixed, with Swiss Bank up Sfr at Sfr 539 but Bank Leu Sfr 25 down at Sfr 3,500 and UBS Sfr 15 lower at Sfr 5,875.

TOKYO

Visit to peaks is extended

INVESTORS actively sought medium-priced incentive-backed stocks in Tokyo yesterday, sending the Nikkei average to another record, writes Shigeo Nishiwaki of Jiji Press. The index advanced 84.32 to 17,600.95 on volume to 880.5 shares...



SINGAPORE

A WAVE of profit-taking overwhelmed Singapore, leaving the Straits Times down 15.42 at 756.02. Selling pressure was particularly intense on stocks approved for purchase with Central Provident Fund (CPF) money...

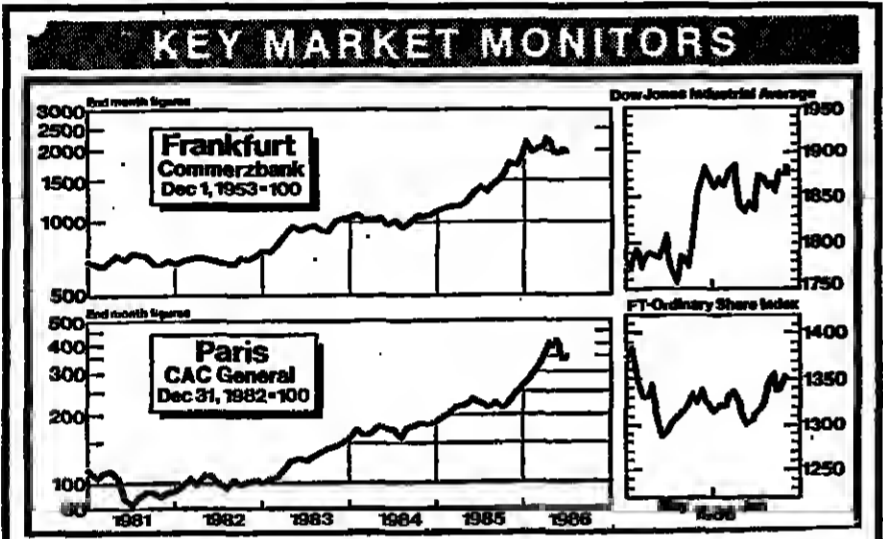


Table with columns: STOCK MARKET INDICES, CURRENCIES, INTEREST RATES, and US BONDS. Includes data for New York, London, Tokyo, Australia, Austria, Belgium, Canada, France, West Germany, Hong Kong, Italy, Netherlands, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, and World indices.

LONDON

SHARE and bond markets put up a creditable performance in London yesterday. Despite the large amounts of cash tied up in the Thames TV and Morgan Grenfell share issues, sufficient funds were available to send leading stocks higher again and rescue government securities from an early setback.

AUSTRALIA

CONCERN over the outlook for the economy in the wake of the national wage decision, the weakness of the local currency and the recent spate of bearish economic forecasts combined to undermine Sydney markets. The All Ordinaries index shed 5 1/2 to 1,190.1 on national turnover that was sharply down to 66.8m shares from the previous day's 99.1m.

HONG KONG

SELLING PRESSURE gained momentum as the day progressed in Hong Kong with foreign institutions switching their investments to equities in Singapore and Australia. The Hang Seng index, which advanced almost 4 points during the morning, ended the day a net 9.34 lower at 1,750.38.

SOUTH AFRICA

GOLD SHARES were mixed in Johannesburg after a quiet and directionless day's trading. Higher-priced golds were mostly lower, despite the firmer bullion price, but the cheaper issues ended 50 cents either side of the previous close.

CANADA

A MIXED PICTURE emerged in Toronto to start a firm start to the day, with industrial holding on to gains but oils, golds and metals losing ground in active trading. Molson put on CS% to CS29% as it forecast substantially higher first-quarter profit.

P.S.K. ÖSTERREICHISCHE POSTSPARKASSE. Copies of the report and accounts of Österreichische Postsparkasse for the year ended 31st December, 1985 are now available and may be obtained from Österreichische Postsparkasse, Georg-Coch-Platz, 2, A-1018, Vienna.

Notice to the Bondholders of 17 1/4% US-Dollars 58,750,000 Guaranteed Bonds 1982/1989. Issued by Österreichische Industrieversicherung Aktiengesellschaft (ÖIAG).

F&T SHANGHAI HOTEL ASSOCIATES LIMITED PARTNERSHIP. US\$31,450,000 TERM LOAN. To finance THE SHANGHAI INTERNATIONAL CONFERENCE CENTRE AND MERIDIAN SHANGHAI HOTEL.

U.S. \$200,000,000 Bankers Trust Overseas Finance N.V. Incorporated in the Netherlands. Guaranteed Floating Rate Subordinated Notes Due 1994.